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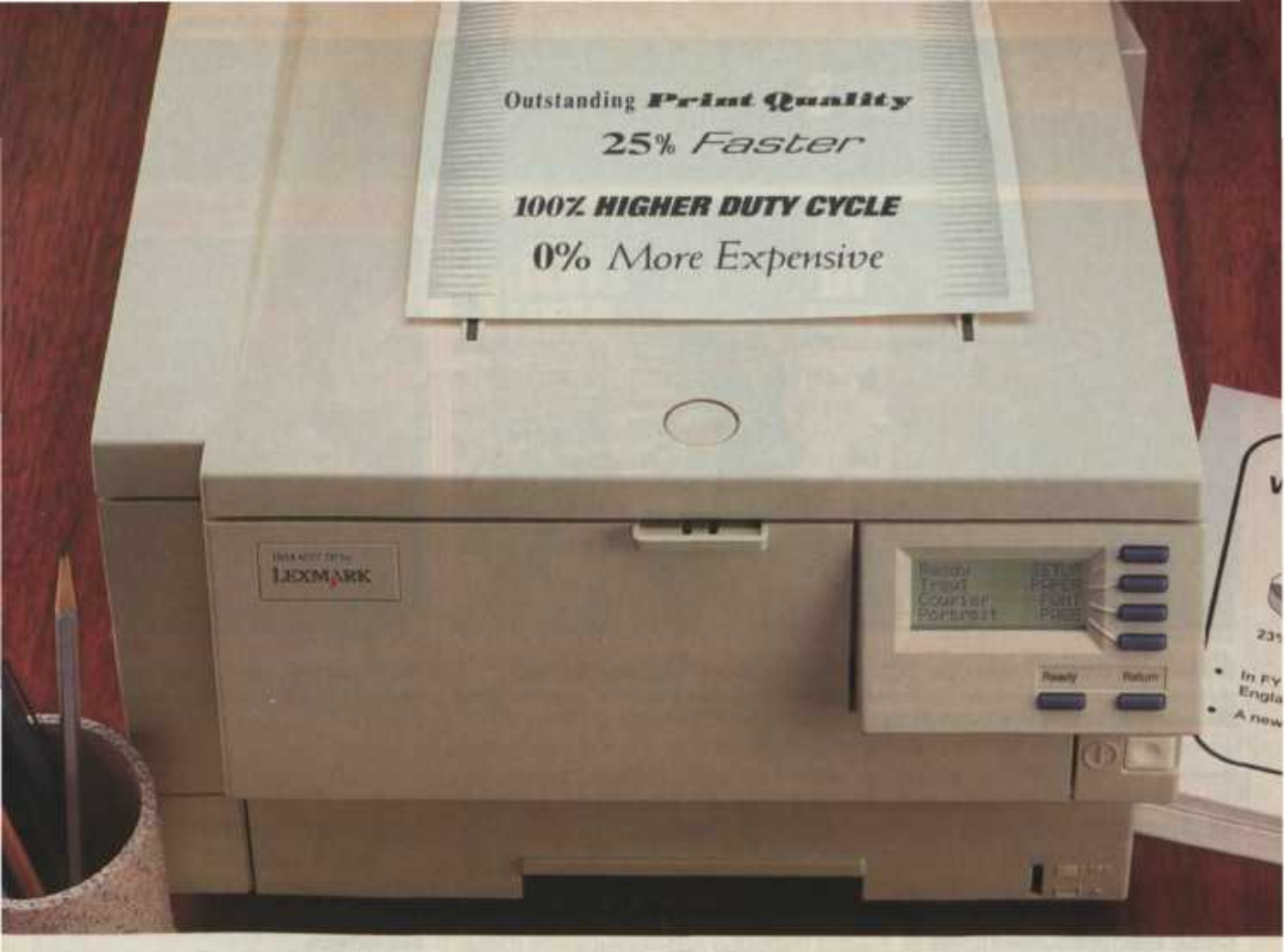
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PHOTO: T. MICHAEL KEZA

**In a hardware store** *in Washington, D.C., President Clinton and Small Business Administration chief Erskine Bowles address small-company owners' concerns about the costs of health reform. Cover Story, Page 18.*



PHOTO: ©ROBERT HOLMGREN

**Health-education** *software by Steve Brown teaches while it entertains. Making It, Page 13.*

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PHOTO: ESTEVE IBLY

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# Editor's Note

## The Health-Care Debate Begins



PHOTO: ©CHARLES THATCHER—TONY STONE WORLDWIDE

"What should the federal government do to improve health care in the United States? And who will pay for the improvements? A long, heated debate over these questions is expected to unfold in Congress . . ."

From this morning's newspaper? Last night's TV news?

Actually, it's the lead of an article that appeared in this magazine 22 years ago this month. The headline: "The Coming Battle Over Health Care."

That battle has obviously been longer in coming than anticipated 22 years ago, but it's now beginning as a result of the sweeping proposals made by President Clinton. That's why this issue of *Nation's Business* has such extensive coverage of the health-care issue—a cover story (Page 18), an editorial (Page 79), and Where I Stand questions (Page 76) that allow you to make your views known to the decision makers on this subject.

Our cover story focuses on an area that has not been explored in depth elsewhere—the potential impact of the Clinton proposals on small businesses. While the general media have given massive and continuing coverage to this issue, our report puts it into the perspective that smaller employers need for a real understanding of the components of this emerging debate.

In citing our 1971 coverage, I am not suggesting that nothing has changed. That earlier article noted that the nation's annual health bill had reached an astronomical $70 billion. Had it merely reflected the inflation rate, that cost would have been some $270 billion this year, but it's actually expected to hit $940 billion! (The chart on Page 79 will show you how this growth continues to accelerate.)

---

A reminder: Nov. 19 is the deadline for applications for the 1994 Blue Chip Enterprise Initiative, which recognizes small businesses that have shown a unique ability to survive serious challenges. For-profit companies that have been in business for three consecutive years and have five to 300 employees are eligible. You can obtain an application form by telephoning 1-800-FOR-BCEI.

Robert T. Gray
Editor

**Nation's Business**

# Letters

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## Fire Sprinklers Minimize Damage

Your September cover story, "Prepare For The Worst," made no mention of the installation of fire-sprinkler systems as part of a disaster plan. Automatic fire sprinklers have protected life and property for more than 100 years, and there has never been a multiple loss of life in a building with such protection.

*John A. Viniello*
*President*
*National Fire Sprinkler Association*
*Patterson, N.Y.*

## Crest Had Passed

The caption says, "Before the crest . . .," while the high-water marks in the photos of the Hawkeye Lumber Co. and the stacked cordwood clearly show the crest had passed.

*John Feyen*
*Gays Mills, Wis.*




*[Editor's Note: Our original understanding from people at the scene was that the water subsequently rose higher than the earlier crest marks. We have since learned that this was not the case and that the time element in the caption was incorrect.]*

## How To Prove Losses

As part of any good disaster plan, an insured should have an appraisal of business assets, including buildings, their major components, and equipment. When a loss occurs, the proof of losses related to those assets is ready, and the insured can concentrate on documenting inventory loss and business interruption.

*Raymond A. Springer*
*Palmer Groth & Pietka*
*Real Estate Analysts*
*Portland, Ore.*

## Getting A Different Message

I felt that the headlines on the cover ("Prepare For The Worst") and the Editor's Note ("Catastrophe Touches Us All") were very timely and appropriate. But I also thought they referred to the Clinton tax package and the future of small business.

*Ray Farrer*
*Farrer West Associates*
*Las Vegas*

## Employee Leasing Vs. Payroll Services

"Contract Workers: A Risky Business" [August] mentions use of a third-party payroll company to avoid potential problems with contract workers. The example you give, however, appears to be an employee-leasing company, not a true payroll-service company. Also, the same article indicates that the cost of a leased worker is less than a payroll employee. From my experience, it's higher because of service and other charges.

Other than these two points, I found your article informative and quite accurate.

*Gene Polisseni*
*Vice President, Marketing*
*Paychex*
*Rochester, N.Y.*

## Illustration Harks To "Dark Ages"

"Your Secretary's Pivotal Influence" [September] contained some very good advice. The test it offered helped me see where I could improve and where I am really doing a great job.

The accompanying illustration, however, was completely degrading to the secretarial profession. A portrayal of a secretary doing a crossword puzzle, with makeup and fingernail polish at her side and the work piling up, is from the Dark Ages.

*Kathleen Naughton*
*Executive Assistant*
*McCabe & Associates*
*Orland Park, Ill.*

*[Editor's Note: The illustration was intended as a depiction of the potential problems that were discussed in the article. We apologize to those who found it offensive.]*

## Focus On Opportunities, Not Status As Minority

The Women In Business column for August says discrimination is one of the reasons why women have trouble obtaining capital. Who is discriminating, and what are their reasons?

Often, using minority status to gain special treatment raises the barriers to equality even higher. To bring about gender parity, the women's business community should look for opportunities to create an equal footing through knowl-

edge and expertise, not through anti-discrimination laws and special-interest groups.
*Allison D. Miree*
*Miree Construction Corp.*
*Birmingham, Ala.*

## The Health-Conscious Should Be Rewarded

Our family is aggressively health-conscious. I realize this isn't a guarantee to keep us out of the hospital, but statistically we are much better off. Why should we be forced to foot the bill for people who thumb their noses at proper health practices and who will more than likely eventually need thousands of dollars worth of health care? It's not fair.
*Mary Anderson*
*St. Paul, Minn.*

## How Will Retailers Face Today's Challenges?

As a fabricator, importer, and distributor of hats and gloves, our business is critically linked to the future of the small retailer. I hope that today's retailers are up to the challenges overcome by the successful retailers in your article "Survival Tactics For Retailers" [June].

Retailers need internal changes, which means getting tough about budgets and spending substantial time on training. They also need external changes to determine what the competition is and what niches need to be filled.
*David Broner*
*Broner, Inc.*
*Troy, Mich.*

## Clarifying A Point About IRA Rollovers

An It's Your Money item [September] referred to a 60-day rollover of funds borrowed against an Individual Retirement Account as penalty-free. As of last Jan. 1, however, distributions to individuals now require a 20 percent mandatory withholding.

Transfers made directly to the new custodian in a qualified IRA account can be done without the withholding.
*E. Paul Hitter Jr.*
*Accounting Manager*
*Frank Messer & Sons Construction Co.*
*Cincinnati*

*[Editor's Note: Columnist Peter Weaver replies: "Mr. Hitter is correct about the 20 percent withholding, which is recovered when taxes are paid. I was concentrating on showing how the 10 percent penalty due in addition to taxes on the amount withdrawn can be legally avoided when an emergency need arises."]*

## U.S. Forest Industry Sustains Resources

William T. Howe of Teaneck, N.J., complains in his letter [July] of "reckless destruction committed by logging companies." Perhaps Mr. Howe would like to explain why:



PHOTO: JIM PICKERELL—FOUS, INC.

- Fifty-eight percent of the forested acreage in the National Forest system is off-limits to logging.
- The remaining 42 percent is being harvested at a rate of 0.6 percent a year.
- Annual timber growth on National Forests exceeds removals by more than 55 percent.

Far from "reckless destruction," the National Forest timber-harvesting program provides not only a sustainable yield but also an easily sustainable yield.
*Joe Shiver*
*Forest Products Division*
*Stone Container Corp.*
*Lake City, Fla.*

## Survey Didn't Give Much Of A Choice

Where I Stand [July] notes that the budget bill then being debated by Congress would be passed with a mixture of tax hikes and spending cuts. It then asks which type of taxes I would prefer. I felt as if you had asked which weapon I would prefer to be used to shoot me.

Don't suggest to Congress that we prefer one tax over another. Keep sending the message that we don't prefer any tax increases.
*Douglas R. White*
*Roswell, Ga.*

*Send letters to Editor,* Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000, and include your phone number. You may fax your letter to (202) 887-3437. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

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Entrepreneur's Notebook

By Randy Cushing

# The Iceman Cometh To A Pool Near You

Consider, if you will, Albany, N.Y. The average daily temperature is above 70 degrees only about 62 days a year; 136 days a year, it's freezing. For most people, that's weather trivia. For me, it's raw data instrumental in starting a new business.

The idea originated in the fall of 1987, when I was reminiscing with my brother-in-law about the pond I used to skate on in my parents' back yard in Norwell, Mass.

When I wondered aloud if I could use my own back-yard swimming pool in Weymouth, Mass., as a rink, my brother-in-law suggested protecting the pool's tile and overflow drain with plywood. (When it gets cold, pool owners drop the water level to well below the overflow drain.) Following up on the idea the next weekend, I realized it was possible to make protective panels to fit any shape of pool. I envisioned millions of grateful parents having their pools winterized so their kids could skate in their back yards.

I knew that a lot of entrepreneurs come up with an idea, expect instant success, and experience regret. So I set out to determine if there was a market for my idea, which I called Link-a-Rink. That was the start of Pool Conversion Industries Inc.

My main business was and is insurance. I had no experience in swimming pools or skating rinks to speak of, and I lacked sizable resources to fall back on. Fortunately, I discovered that market research can be accomplished with perseverance and savvy, and without a lot of money.

First, I needed to determine if my idea was unique. I asked pool dealers about the existence of such a system. (All advised against skating in a pool.) Then I checked with exhibitors at a pool trade show. No one suggested that such a product existed.

Next, I paid the National Spa and Pool Institute for data on pool ownership in the United States and Canada. I also studied the average daily temperatures of 290 cities over the past 30 years.

I found out that there are 7 million swimming pools in the United States and Canada. About 2 million of them are in areas that, like Albany, are cold enough for Link-a-Rink. Of those pools, about 1.4 million are in-ground. Many thousands more are built every year. I was convinced that there was a market for my product.



PHOTO: RICHARD HOWARD

**Randy Cushing's** *Link-a-Rink system allows swimming pools to double as ice-skating rinks.*

I then hired as a consultant a former professor from the University of Lowell, in Massachusetts. He was an expert on polymers and plastics, and I asked him to determine the most suitable material for the protective panels. He came up with a hybrid blend of high-density polyethylene that becomes more durable in the cold.

The U.S. Patent Office granted a patent for Link-a-Rink on the first application, in August 1988, only nine months after I had applied, and I began looking for a manufacturer. I found 25 manufacturers in North America that had the necessary equipment to make the panels; of those, only 11 took on outside jobs. Most of the 11 operated in the South, meaning sizable shipping costs for me; others weren't used to making consumer goods.

My search ended at the beginning of 1989, when I discovered Plastics Research Corp., now located in Flint, Mich. I was sold on the company's experience in making consumer products and its location in the North.

I continued to sell insurance; in fact, 1987 and 1988 were terrific years. I used that business as a springboard.

Armed with a prototype and market research, I raised $500,000 for Pool Conversion Industries, mostly from insurance clients.

I started selling the conversion kits in 1989. The price is $1,000 to $1,500, depending on the size of the pool. Frankly, sales have been up and down, certainly not as impressive as my research led me to expect.

This year is shaping up to be a good one, however, thanks largely to a friend's suggestion that I contact the Amateur Hockey Association of the United States, whose members now account for many of our sales. (The panels can withstand a slap shot of up to 100 miles per hour.) We have also installed Link-a-Rinks at hotels and schools.

If Pool Conversion Industries doesn't turn a profit in a year or two, I'll have to determine what to do next, but I still believe in this product. Random calls to Link-a-Rink owners have indicated that customers are satisfied.

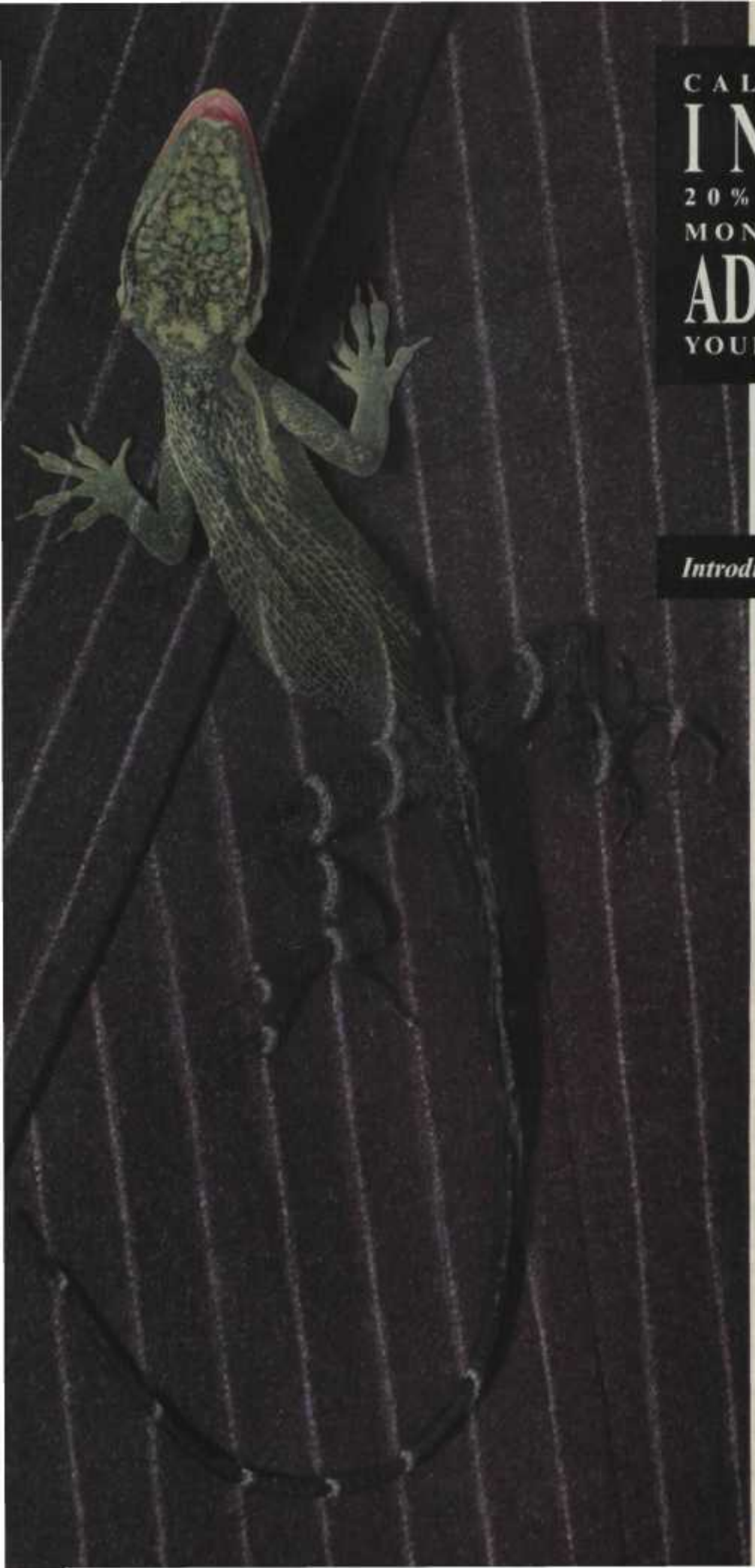
If my business doesn't succeed, I won't regret having tried for a minute. The people who have regrets are the ones who don't try at all and wonder what could have been. NB

*Randy Cushing is president and founder of Pool Conversion Industries Inc., in Weymouth, Mass. He prepared this account with* Nation's Business *Contributing Editor Charles A. Jaffe.*

*Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor,* Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

## What I Learned

***Coming up with that gem of an idea is just a small part of the formidable task of launching a new enterprise. An entrepreneur must do his or her homework, determining how the product will be made and—most important—who will buy it.***



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# Dateline: Washington

*Business news in brief from the nation's capital.*

FEDERAL SPENDING

## Senator Seeks Support For Deficit Commission

Sen. Connie Mack, R-Fla., is appealing to business for support of his proposal to make it easier for members of Congress to avoid political repercussions from voting to cut specific federal budget outlays.

At a recent meeting at the U.S. Chamber of Commerce, Mack urged corporate representatives and trade-association officials to get behind his bill for creation of the Spending Reduction Commission. This panel, he said, would give lawmakers the same political cover on domestic spending that the defense-base closure plan now gives them on eliminating military bases.

Mack's commission would have seven members, four appointed by the president and three by the majority and minority leaders of the Senate. None could be current or former members of Congress. The commission would have to recommend $65 billion in spending cuts annually through 2000 or until the budget was balanced.

As with the base closure commission, Congress and the president would only have the right to approve or reject the proposals in toto, no fiddling with details allowed. Says Mack: "No member would be able to stand up and offer an amendment to support the space program because it's important to his district."

*—John S. DeMott*

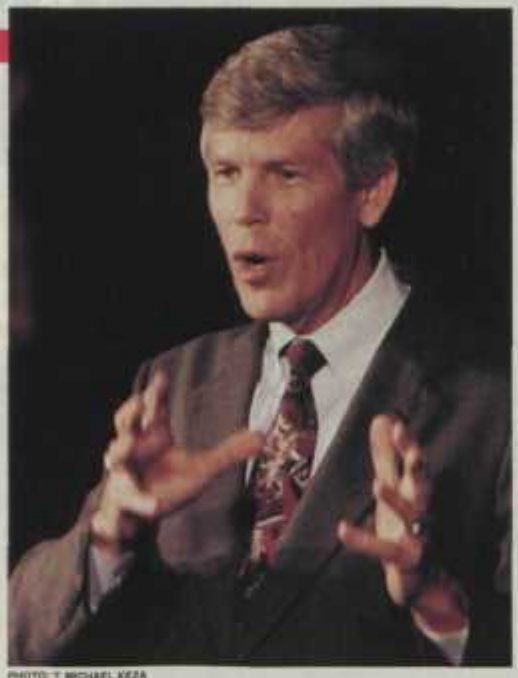


PHOTO: T. MICHAEL KEZA

**Sen. Connie Mack:** *Cuts by commission.*

REGULATION

## A Lighter Burden On American Industry?

The key to an executive order requiring review and analyses of proposed "significant" rules will be the way the order is implemented. That is the view of business lobbyists in Washington, who say that on the surface the order issued by President Clinton represents a fair and balanced approach to the regulatory process.

The Clinton order defines significant regulations as those that would cost the economy $100 million or more annually or would conflict with actions taken or planned by another agency.

Agencies will be required to weigh costs and benefits of proposed rules and to follow a number of "principles" in determining the need for and consequences of regulations. For example, one principle included in the order requires that decisions be based "on the best reasonably obtainable scientific, technical, economic, and other information."

The U.S. Chamber of Commerce says the manner in which the order is implemented will be the proof of the administration's commitment to, in President Clinton's words, "lighten the load for regulated industries."

*—David Warner*

INTERNATIONAL TRADE

## Government To Open One-Stop Export Shops

The Clinton administration has announced it will create one-stop shops to provide counseling and services to exporters and would-be exporters in the hope of encouraging more small and midsize U.S. firms to begin doing business abroad.

The export centers will primarily integrate services of the Department of Commerce, the Small Business Administration, and the Export-Import Bank, and they will provide companies with a single contact point for federal export promotion and finance programs.

A pilot program will begin in January at four sites: Baltimore, Chicago, Los Angeles, and Miami. Each site will operate differently. For example, some will be partnered with state agencies; others will not.

The sites will be monitored to determine which system works best.

The administration plans to identify 10 new sites by next June and to establish them in 1995.

The one-stop shops will undergo a rigorous evaluation, including self-assessments, regular field meetings, and user surveys. All sites will be evaluated at least quarterly and annually.

The program is one of 60 initiatives outlined in the administration's new national export strategy, announced by President Clinton this fall. The strategic plan is the work of the Trade Promotion Coordinating Committee, which consists of representatives of the 19 federal agencies involved in export and trade.

*—Roberta Maynard*

## New EC Business Guide Addresses Problem Areas

The fourth update of *EC92: A Practical Guide for American Business* has been published by the U.S. Chamber of Commerce. This update focuses on potential problem areas for U.S. companies that do or wish to do business in the 12-nation European Community.

The update says problem areas could include product standards, testing, and certification; environmental standards; community-wide protection of some industrial sectors; and EC restrictions on foreign access in such areas as government procurement.

The update also examines what the end of the Cold War and the resulting new European political and economic landscape is likely to mean to U.S. companies.

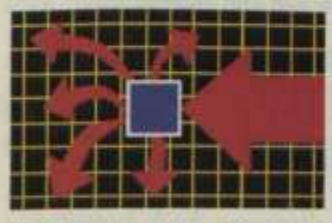
"It is more critical than ever that the U.S. business community stay informed and convey its concerns to EC officials to avoid misunderstandings on trade, commercial, economic, and monetary matters," says Willard A. Workman, the Chamber's vice president, international. "This publication will help greatly in that regard." Update No. 4 costs $30 for Chamber members and $40 for nonmembers. To order, call (202) 463-5460.

*—Albert G. Holzinger*




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# Managing Your Small Business

*Peak performers for peak periods; signals of financial distress; tips for controlling travel costs.*

*By Roberta Maynard*

EXPERTISE

## Firms Can Benefit From Interim Professionals

Many companies have found that if they sometimes need more full-time employees than they can afford to keep on the payroll throughout the year, they can get the expertise they need—when they need it—on a short-term basis from agencies that specialize in placing executive and professional temporaries.

The software-development unit of Dallas-based Banc One Management and Consulting Corp., for example, frequently uses interim professionals during peak periods of its contract work, which last about six months. The firm, which manages and services asset portfolios, was formed three years ago and wants to avoid adding permanent staff members too quickly.

"This is an ideal way for us to staff," says Rick Andreas, manager of the department, which has seven full-time programmers. "We can't predict our volume. Our needs vary widely. In the latest case, we needed someone with three to four years' experience in a somewhat specialized computer language, and it had to be at the high-end skill level," he says. "When we need help, we want candidates with a proven track record who can step in and do the job with a minimal learning curve."



PHOTO: ©JOHN R. FULTON JR.

**Software-development** *manager Rick Andreas, left, of Banc One Management and Consulting, in Dallas, hired InterExec's J.E. Edwards for a short time during a heavy work period.*

To find the right programmer, Andreas worked with InterExec, a division of Cleveland-based Management Recruiters International Inc. In addition to payroll duties, InterExec handles prequalification and screening of candidates. It then provides several resumes to the client company, which can review them and decide whom to interview. Contracts specifying the term of work may be extended.

To find an agency that places executives and professionals on an interim basis, refer to the employment section of the Yellow Pages. Before hiring through an agency, talk with other companies that have used its services. ■

MONEY

## Spotting Early Warnings Of Financial Trouble

Danger signs of financial distress in a business vary with a company's maturity and growth rate, but all signal the same warning. The key to a successful turnaround is to watch for these signs and to correct them quickly, says David S. Murray, an attorney with Murray & Murray, in Palo Alto, Calif.

The firm specializes in business reorganizations, informal workouts (arrangements between a borrower and a lender to restructure the terms of the loan agreement), and bankruptcy.

Murray, with 20 years' experience in helping distressed companies, notes these most common danger signs:

■ Inability to meet forecasting projections for three or four quarters in a row.

■ The CEO is not building a management team, which may occur, for example, when technology specialists are reluctant to release control to managers.

■ Very rapid sales growth without appropriate profit growth. This is aided and abetted by a strong balance sheet and a tendency to live off current assets. This could signal a problem with internal management. If managers face the music early, the company may be able to right itself with internal reorganization.

■ Aggressive overexpansion, particularly by companies that want growth for the sake of it (typical in leveraged buyouts). This often results in a loss of business focus.

The characteristics typical of a financially troubled company, says Murray, include poor operating controls, especially not knowing how much it costs to produce a particular product, and second-class treatment of the company's financial operation. Such companies also exhibit low morale, an adversarial relationship with creditors and vendors, and a fire-fighting approach to problems.

"Almost any company in business for any length of time is going to have to face a financial crisis," says Murray. To survive may require an internal reorganization, an informal workout, or even Chapter 11 reorganization. The biggest cause of failing, he says, is not responding to danger signs in a timely manner. ■

EXPENSES

## The Growing Need To Monitor Travel Costs

Controlling travel and entertainment costs has always been important to businesses, and it is becoming even more so as provisions of the new federal budget law take effect.

Several parts of the law will have impact on travel and entertainment costs directly. They include the gasoline tax hike of 4.3 cents per gallon, which took effect this past Oct. 1, and the reduction in the deductibility of business meals and entertainment from 80 percent to 50 percent, effective Jan. 1, 1994.

Another provision that starts this coming Jan. 1 eliminates the deductibility of spouses' business travel (unless they are also employees of the company) and dues for club memberships.

To control travel and entertainment costs more effectively, says Steve Alesio, executive vice president of American Express' corporate card division, companies should create and enforce a travel policy.

The policy can be as brief as a one-page



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summary that tells employees who can travel, the class at which they may travel, the designated travel agency, the daily budget per employee, where to stay, and who is authorized to approve travel. The policy should also specify reimbursement procedures.

In addition, businesses should establish cost-saving requirements, such as mandating that employees refuel rental cars before returning them to the agency. This can save as much as 50 percent of the gasoline cost, according to American Express. Tighter receipt requirements can also give managers better control of expenses. "The Internal Revenue Service requires receipts for expenses of $25 and up," adds Alesio. "We recommend reducing that to $10."

It may also be prudent to require actual statements and bills whenever possible. For example, the tear-tab receipts provided by restaurants for customers to complete can result in 10 to 20 percent greater expense than a cash register receipt, says Alesio, because employees often forget the exact amount spent and tend to round the amount up rather than down.

"A surprising number of companies operate on the belief that employees will use their best judgment, but it's money leaking out the door if there is no control," says Alesio. Travel and entertainment costs are not frills, "especially for smaller companies; it's how many of them market their companies and products."

Travel and entertainment is the third-largest controllable expense after salaries and data processing, according to the 1992 American Express Business Travel Management survey.

(For more on tax changes under the new budget law, see "The New Tax Law's Business Impact," in the October issue, and For Your Tax File, on Page 70 of this issue.) ■

SELLING

## Seven Steps For Avoiding Presentation Pitfalls

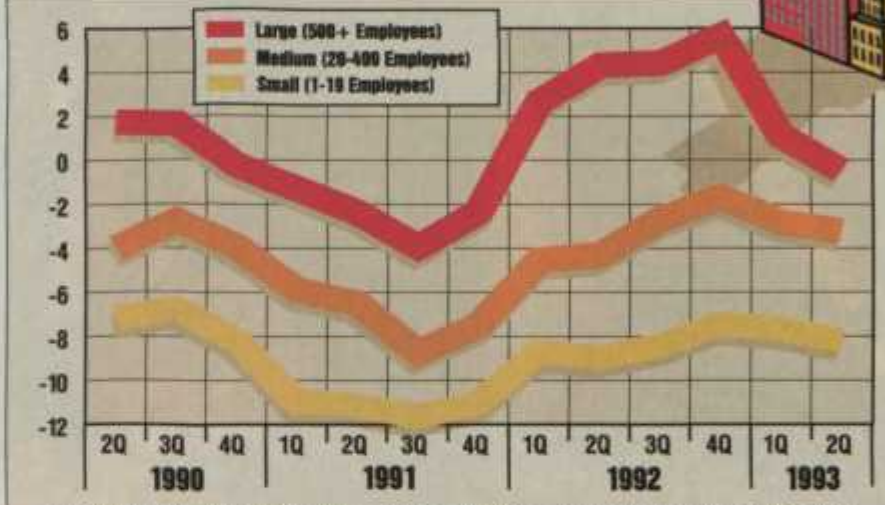
Salespeople can customize their approach quite a bit when presenting a product or service, but they can lose the sale by failing to follow some common rules about presentations, says Stephan Schiffman, president of D.E.I. Management Group Inc., in New York, and the author of *Power Sales Presentations* (Bob Adams, Inc.; $7.95). Schiffman's seven presentation rules:

- Listen before all else.
- Maintain eye contact.
- Don't misquote the prospect in order to advance the process.
- Never interrupt the prospect.
- Never argue with the client to prove a point; even if you win, in fact you'll lose.
- Offer constant proof of your claims, preferably with the names of your current satisfied customers.
- Strive not to focus on closing the sale but on helping the prospect, letting him or her feel your visit has been profitable. ■

CASH FLOW

## U.S. Firms' Bill-Paying Speed Slumps

Businesses Of All Sizes—Those Paying More Swiftly vs. Those Paying More Slowly




The overall bill-paying performance of U.S. companies slumped in the second quarter of 1993 — the second consecutive downturn following five quarters of steady or improving payment performance. On Dun & Bradstreet's Payment Performance Index, a negative number means companies paying bills more slowly in a given quarter outnumbered those paying faster in the same category of business size. Small firms, as a group, pay bills more slowly than larger ones because of tighter cash flow, regardless of economic conditions.

SOURCE: DUN & BRADSTREET INFORMATION SERVICES PAYMENT PERFORMANCE INDEX

EMPLOYEE PERFORMANCE

## Team Loyalty Makes For Better Employees

Employees who feel more committed to the people they work with than to their organization or its leaders are the ones who contribute the most to the company, according to research done at Ohio State University in Columbus.

A study of 440 civilian employees at a military supply organization shows that the locally committed workers—that is, those committed to their co-workers—were much more likely than those committed to the organization itself to go beyond their job descriptions in doing things that helped the organization. They also tended to be more satisfied with their immediate work environment.

The conclusion is that team building among employees who work closely together may be a key to "better employees."

The study was written by Thomas Becker, now an assistant professor at Washington State University in Pullman, and by Robert Billings, associate professor of industrial/organizational psychology at Ohio State.

The study provides some preliminary clues, says Billings, as to how managers can help their employees develop a stronger attachment to their local work groups. One is that formal team-building exercises are likely to have a positive effect.

Another is that managers should form teams around a particular product or service or set of products or services that fit together. This way, team members can see how their different jobs relate to the bigger goal; workers derive more satisfaction from a sense of task completion when they can see the whole task process from start to finish. ■

NB TIP

## All About ESOPs

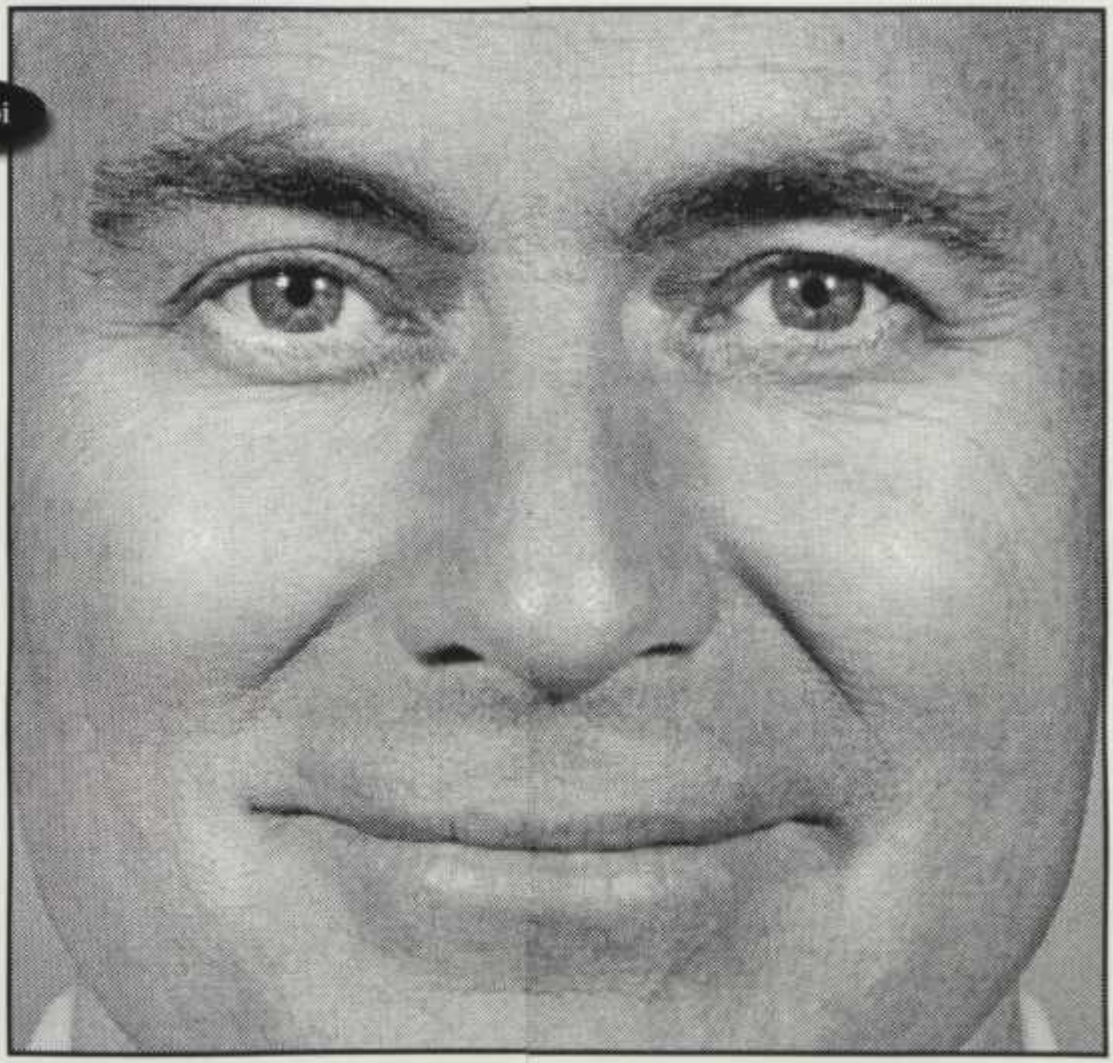
For insight into the hows and whys of employee stock ownership plans, read *Sharing Ownership: The Manager's Guide to ESOPs and Other Productivity Incentive Plans*, by Darien A. McWhirter, an attorney specializing in employment law.

This 261-page book, written in clear language, provides historical perspective as well as many actual business examples and anecdotes. Some highlights: an explanation of stocks and bonds, including stock purchases and gifts; how pension and other benefit plans work; trusts; a discussion of tax considerations; and how to create ESOPs and use them to sell a firm or spur growth.

The book is available for $34.95 at bookstores or from the publisher, John Wiley & Sons, Inc., 1-800-225-5945. NB

# Look

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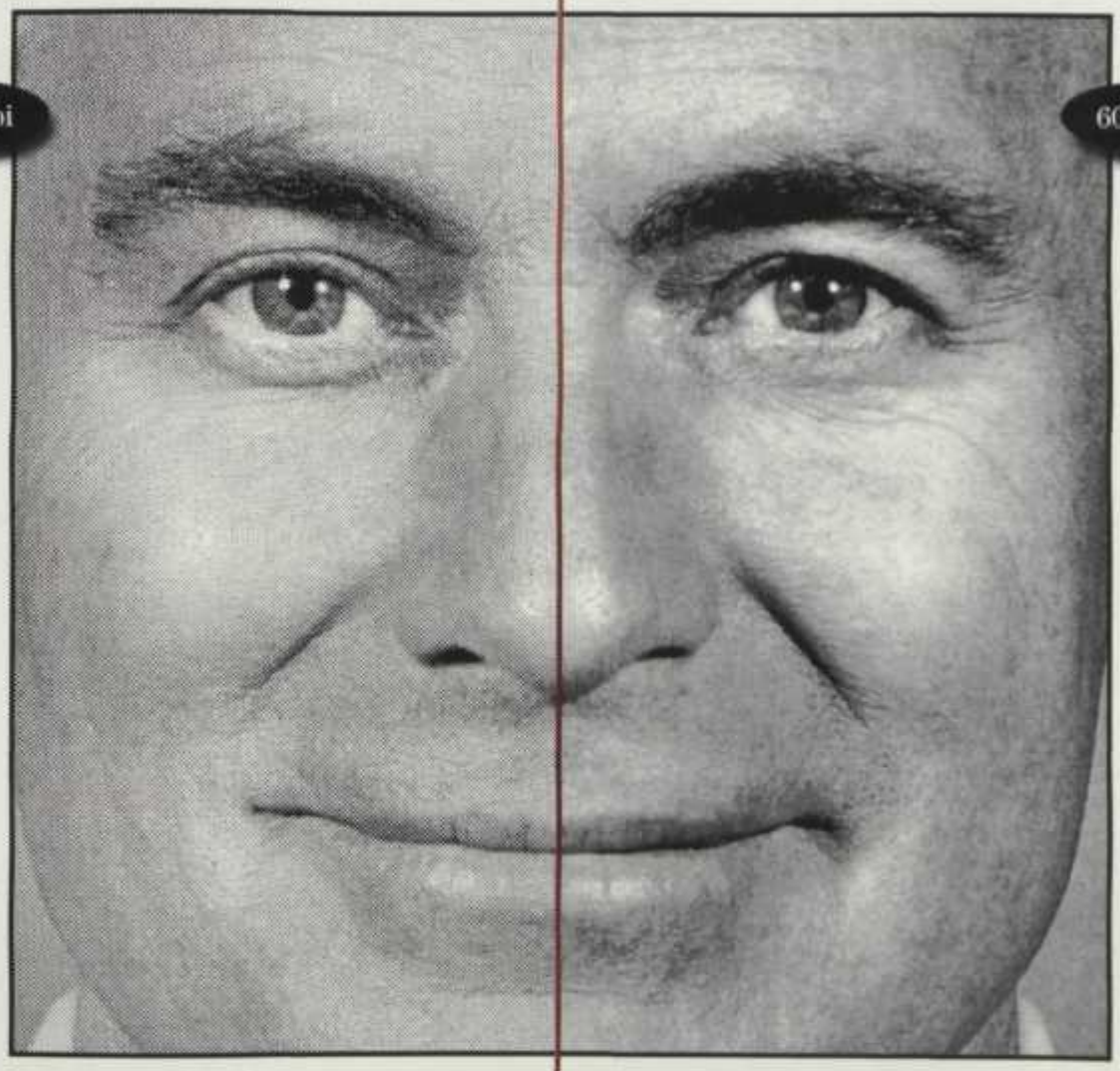


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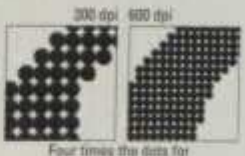

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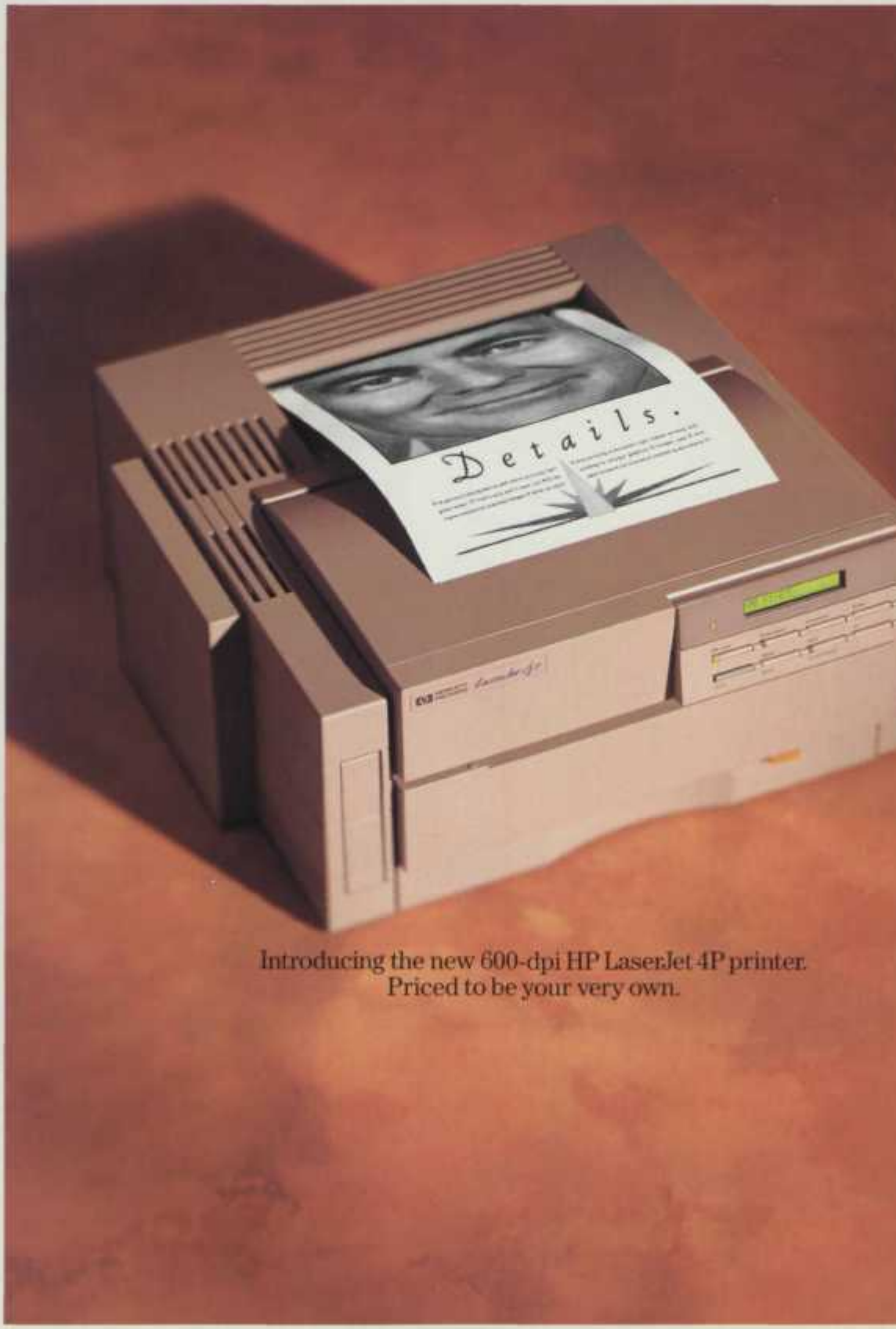
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# Making It

*Growing businesses share their experiences in creating and marketing new products and services.*

## Yachts At The Cutting Edge

*By Sharon Nelton*

Who hasn't dreamed it at least once? You pull up stakes and head for the Caribbean. Surrounded by blue skies, white sand, and a turquoise sea, you spend the rest of your life in shorts, doing work that you love and making a decent living at it.

Richard A. Difede and Roger Hatfield are living just such a dream. They are the founders and majority stockholders of Gold Coast Yachts, Inc., a 25-employee company specializing in the design and manufacture of multihull sailboats and "wave-piercing" power catamarans, ranging from 40 to 65 feet, for commercial uses such as charters and ferries. Located on the north coast of St. Croix, in the U.S. Virgin Islands, Gold Coast builds about five boats a year for clients around the world at prices ranging from $100,000 to $450,000.

"Most boat builders build boats for the recreational market," Difede says. "We build boats for people who want to take other people onto the water." They chose multihull boats over monohulls, Difede says, because "a multihull moves people better. It moves them more comfortably, it moves them quickly, and it moves them at lower cost."

Seventeen years ago, with a yen to go surfing and sailing and a bachelor's degree in geography from Rutgers University, Difede, born in New Jersey, took off for the Virgin Islands.

The following year, Hatfield and his wife, Cynthia, who had run a home-decorating business together, set sail for St. Thomas in a boat that Roger had built in the back yard of their Washington, D.C., home. Their vessel was a trimaran, a sailboat with three hulls, designed by multihull pioneer Jim Brown.

It was just the beginning of the movement toward multihulls, Hatfield recalls. His own father, a naval architect, was "horrified," he says. "It was not proper yachting." The Hatfields cruised the Caribbean for two years and eventually settled in St. Croix.

Hatfield and Difede, who had both been earning a living by doing repairs on multihulls, met through a mutual friend in 1979 and have been a team ever since. They incorporated Gold Coast Yachts in 1985, and by 1987, they had two company-built boats in operation as day charters and had begun to build for others.

Hurricane Hugo interrupted the dream in September 1989, destroying not only their charter operation but also boats

**St. Croix boat builders** *Richard Difede, left, president of Gold Coast Yachts, and Roger Hatfield, chief designer, specialize in power catamarans and multihull sailboats.*

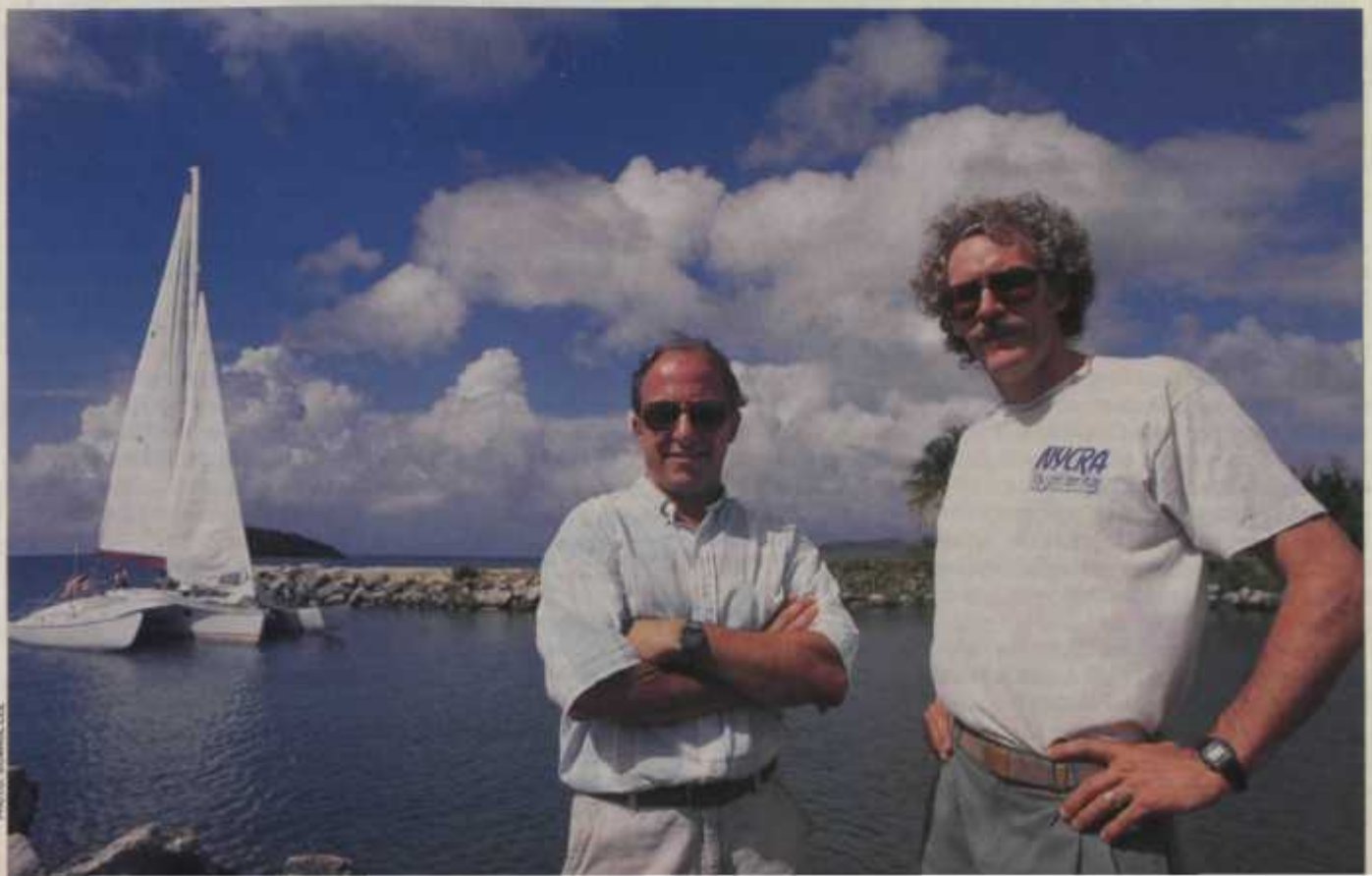



PHOTO: ICARUS LEE

under construction—including a commercial passenger boat that had been ordered by America's Cup champion Dennis Connor.

Gold Coast was without telephone or electrical service for the next five months, Difede recalls, but "we said, 'We're building Dennis Connor's boat. Nothing is going to stop us from getting this boat done in a reasonable time.' "

Difede got on a plane to the mainland, where he ordered supplies to help employees with their personal needs and also obtained generators and materials to run the plant. Connor's boat was finished in February 1990—only 30 days late.

They haven't revived the charter service, but sales in manufacturing have increased about 8 percent annually and are expected to grow 15 to 18 percent in the fiscal year ending next June 30. The business has been "fairly recession-resistant," says Difede.

As Gold Coast's chief designer, Hatfield keeps the company ahead of the curve on technology and product development. Difede, Gold Coast's president, oversees administration.

It wasn't until the company had reached about 20 employees, Difede says, "that I began to recognize that the real power in the organization now is in the employee base. It's not in management." As a company grows, he says, "management has to learn to delegate, learn to empower, and allow the decision-making process to percolate through the organization from top to bottom and bottom up."

The two partners take seriously a commitment to integrate their business into the community. "This company could not have gotten off the ground and survived without the tax benefits that were made available through the Industrial Development Commission," Difede says. The commission is set up to attract businesses to the U.S. Virgin Islands through incentives such as exemptions or partial exemptions on excise taxes, customs duties, and taxes on property and corporate income. For their part, Difede and Hatfield set up an apprenticeship program in boat building in the local school system. Most of their local employees have been hired from the program.

By 1995 the two men hope to achieve a long-held goal of establishing an interisland ferry system in the Virgin Islands. But Difede says, "I think the game for us here is not how big we can get, but it's how profitable and how enjoyable we can make what we do for the effort expended." That might mean increasing the company's annual sales range, currently $1.5 million to $2 million, to a level of $3 million to $5 million, but probably not more.

Whatever Gold Coast does, time and trends are on its side. Says Hatfield: "Ultimately, the world seems to be moving toward multihulls very quickly in all realms, whether it's commercial or passenger or cruising or racing." ■

# Persistence Pays Off

*By Jesse H. Sweet*

Appropriately located on a street called Persistence Drive in Woodbridge, Va., the Polyfab Display Co. is a reflection of its president's values and work ethic.

Al Parker, 37, founded Polyfab, a manufacturer of point-of-purchase signs, displays, and graphics, with his 33-year-old partner, Steve Lawwill, in 1987. Both had been working for a waste-removal company in Northern Virginia but became disgruntled about their income potential and decided to form their own company.

Parker and Lawwill did not know each other very well, which made launching a business together difficult. Parker likens it to getting married. "You only see what you want to see, and then a lot of other things surface," he says.

One foundation they used to strengthen their relationship, Parker says, was the fact that they are both Christians. "Since we knew that we had our Christianity in common," Lawwill says, "we believed that we could trust each other, and we knew that we both had a good work ethic." Once that commonality was established, he says, "starting the business was just a matter of details."

Parker has a bachelor's degree in sales and marketing and an M.B.A., both from Miami University, in Oxford, Ohio.

*Jesse H. Sweet is majoring in journalism and political science at Miami University in Oxford, Ohio.*




PHOTO: EMANUELLO PASANELLI

**Partners** *Al Parker, left, and Steve Lawwill formed Polyfab Display Co. to make point-of-purchase displays.*

Lawwill has extensive knowledge of the plastics industry. Together, their backgrounds and skills made the perfect combination for Polyfab.

Parker's willingness to learn a business that was somewhat unfamiliar to him while working with a partner he hardly knew helped to set the tone of dedication now pervasive throughout Polyfab. And the results are beginning to show. Parker estimates $1.2 million in sales for 1993, which would be more than double last year's outcome, and he expects $2.5 million in sales by three years from now. "Then," he says, "we'll have the capital to grow further." His goal: regional and national recognition. The company's employees number from 10 to 60, depending on the number of projects the company has under way.

Parker says that Polyfab's biggest asset is its staff, which he claims could hold its own against any other in the industry. "You have to start with quality people," he says, "people that innately want to excel and have a lot of personal pride in what they do."

In the beginning, Polyfab attempted to drum up business by going through the Yellow Pages and calling prospective clients. The first big break came shortly after the business opened, with a sizable order from *USA Today* for 8,000 plastic newspaper holders. Since that time, Polyfab has compiled an impressive list of customers, including McDonald's, Sony, Price Club, and Blockbuster Video.

Today, Polyfab engages in smart, low-cost marketing. One of its best vehicles for attracting customers has been the Virginia Regional Minority Supplier Development Council, an affiliate of the National Minority Supplier Development Council, which works to develop ties between big corporations and minority-owned businesses. "We've been able to network that very well," says Parker, who received a "Supplier of the Year" award from the national council in October.

Parker says the business has meant a lot of personal sacrifice: He has taken only one vacation in six years, and he describes his social life as "extremely limited."

But the persistence at work on Persistence Drive is paying off. Says Parker: "We're very excited about the future." ■

# The Learning Game

*By Steven B. Kaufman*

For somebody who never got a dime from venture capitalists or anyone else, 28-year-old entrepreneur and software wunderkind Steve Brown is doing just fine—and is likely to do far better.

Brown is president and chief executive of Raya Systems, a Mountain View, Calif., developer of health-education software games and a company on track to do $2 million in sales this year, up from $1.2 million in 1992 and $400,000 in 1991.

Raya has already made a role-playing adventure game for young diabetes patients for the Super Nintendo Entertainment System and another on AIDS education for personal computers. Now in the works is a third adventure game, aimed at discouraging youngsters from smoking, that will play on both platforms and hit the market in time for Christmas.

Brown, a Nintendo licensee, has yet another four games planned for release by the fall of 1994. Clearly, the young workaholic—12-hour days are typical—is on to something big.

Raya recently gave 10 copies of the AIDS game, "The AIDS Avenger," to Yerba Buena High School in San Jose, Calif., one of three West Coast schools testing the program. During lunch hour, Principal Gary Zellner commonly sees up to 10 students using the software. "They're viewing 'AIDS Avenger' as a game, not as a learning exercise, and nobody has said they even have to look at it," he says. "That tells you something."

Another "AIDS Avenger" advocate is the Seattle-based Northwest AIDS Foundation, which plans to buy 26 copies of the $40 program and distribute them free to Seattle's high schools and middle schools.

"First and foremost, 'AIDS Avenger' is a good video game with nice graphics, good music, and clever situations," says Jeff Natter, the foundation's education manager. "The information in the game is also thorough, accurate, and specific, making it a wonderful AIDS educational supplement."

Raya was founded in December 1988 with three employees and now has 16. But Brown figures growth has just started. He projects $8 million in sales next year and $50 million in five years.

"We're dealing with issues we can't afford to sugarcoat," he says. "AIDS, for example, is the No. 1 health issue for young people, and it's the only disease that is 100 percent preventable through education."



PHOTO: ROBERT HOLMGREN

**Software developer** *Steve Brown, head of Raya Systems, works amid creatures in his health-education video games: "Captain Novolin" (diabetes) and "Bronkie the Bronchiasaurus" (asthma). On the screen is "Rex Ronan, Experimental Surgeon" (smoking).*

*Steven B. Kaufman is a free-lance writer in San Jose, Calif.*

The genesis of Raya Systems dates back to January 1987, when Brown, a Stanford senior majoring in physics, took a half-year off to study German in Berlin. He mastered the language quickly and got an internship at a government research institute in Munich that focuses on the computerization of medical information. There, he saw big opportunities for someone who could develop software for database management for diabetes patients, prodding him to develop a graphics program in about a month.

People at the institute showed it to Boehringer Mannheim, a big pharmaceutical company in Mannheim, Germany, that makes diagnostic devices for diabetics.

The company licensed Brown's program in 1987 and gave him a contract to develop better versions of the software for use by both doctors and patients.

After working for Boehringer Mannheim for a year and accumulating $45,000, Brown returned to California and used his savings to open Raya Systems.

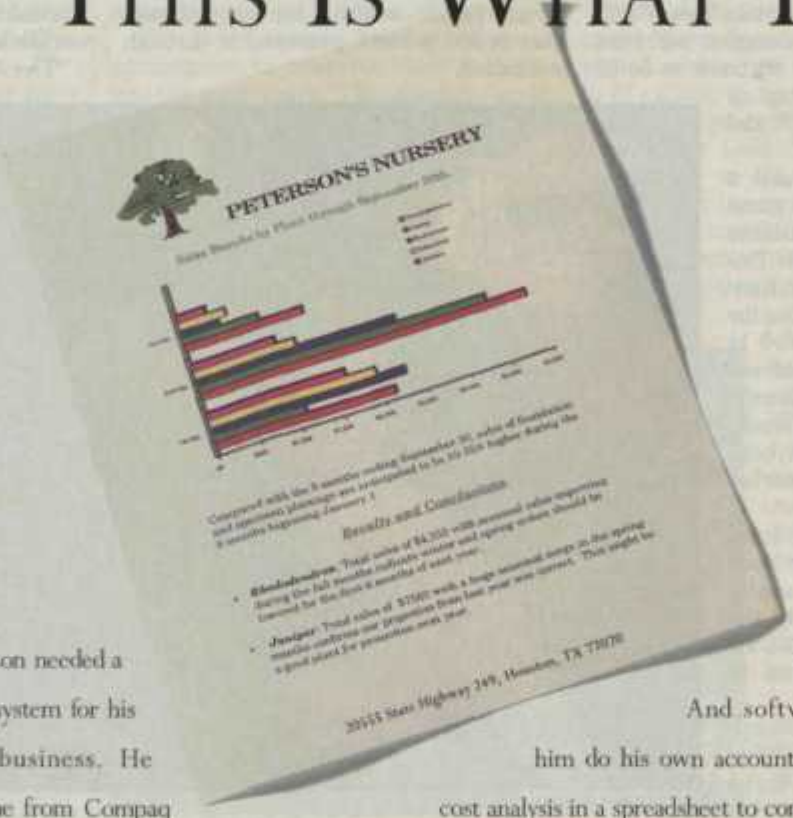
In 1990, Brown collected a $50,000 grant from the National Institutes of Health to see if he could develop a gamelike software educational program for diabetics. With additional financial support from Danish-based Novo Nordisk Pharmaceuticals Inc., Brown's effort eventually led to the 1992 unveiling of "Captain Novolin," named after Novo Nordisk's product, Novolin, one of the world's biggest-selling insulin brands.

"The AIDS Avenger" went on sale this past April. PCSL Software Publishers Inc., the game's chief distributor, in Nashville, Tenn., reports that retail sales have had a slow start, mostly because merchants are skittish about selling a product linked to such a controversial problem. But the company adds that negotiations are under way with public school systems in six states over the purchase of 15,000 copies of the software.

"Ultimately, I'm convinced we'll place the software in major chain stores and sell 100,000 copies in two years," says PCSL President Claude Miller. "Stores will like it because kids like it."

As more games are introduced and sales increase, Raya will rely increasingly less on the $1 million annually it still collects for software development on behalf of Boehringer Mannheim and other companies. This suits Brown just fine. "It pays to be diligent," he says. NB

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COVER STORY

# Small Firms' Stake In Health Reform

*By Roger Thompson*

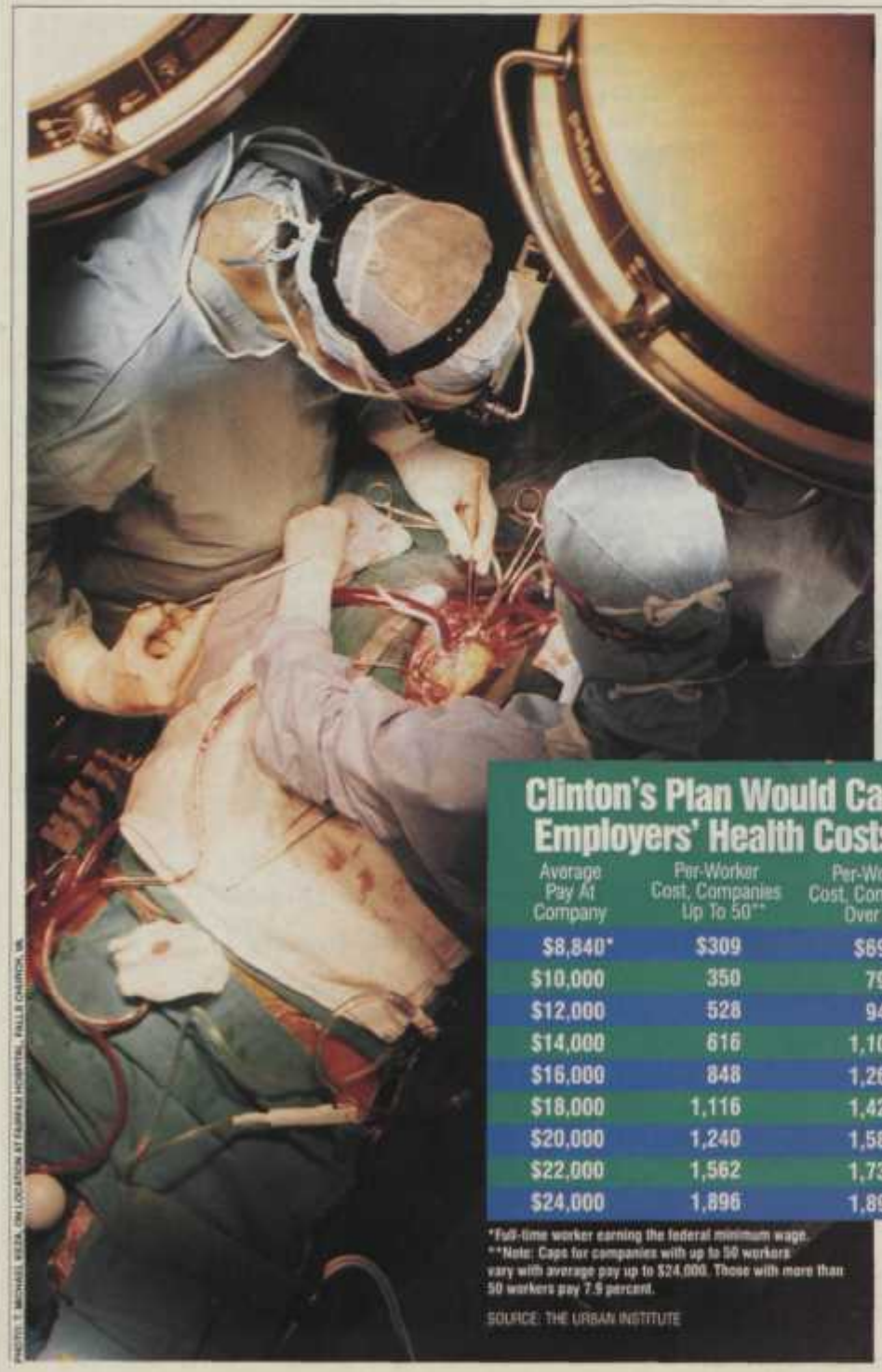


PHOTO: T. MICHAEL KEZA; ON LOCATION AT FAIRFAX HOSPITAL, FALLS CHURCH, VA.

## Clinton's Plan Would Cap Employers' Health Costs

| Average Pay At Company | Per-Worker Cost, Companies Up To 50** | Per-Worker Cost, Companies Over 50 |
|---|---|---|
| $8,840* | $309 | $698 |
| $10,000 | 350 | 790 |
| $12,000 | 528 | 948 |
| $14,000 | 616 | 1,106 |
| $16,000 | 848 | 1,264 |
| $18,000 | 1,116 | 1,422 |
| $20,000 | 1,240 | 1,580 |
| $22,000 | 1,562 | 1,738 |
| $24,000 | 1,896 | 1,896 |

*Full-time worker earning the federal minimum wage.
**Note: Caps for companies with up to 50 workers vary with average pay up to $24,000. Those with more than 50 workers pay 7.9 percent.

SOURCE: THE URBAN INSTITUTE

When President Clinton launched a media blitz to sell his health-reform package to the nation, he made his first sales pitches to the two groups whose support he needs most: ordinary Americans and small business.

The two dozen people whom Clinton invited to the White House Rose Garden recounted their painful experiences with a health-care system that often denies coverage to those who need it most.

Next, he traveled to a Washington, D.C., hardware store to make his case to 19 small-business owners. It was a telling second venue.

Clinton could have addressed any number of other groups with major stakes in his reform plan: doctors, the elderly, big business, or health insurers. But he chose small business for a simple reason: He cannot deliver universal coverage under his plan without requiring all businesses to share the cost and responsibility of that coverage with employees and government.

No group is more apprehensive of added costs than small-business owners. Clinton hopes to convince them that they have less to fear from his plan than they may have expected.

Business groups, large and small, will play a major role in the reform debate because employers constitute the largest bloc of health-insurance purchasers.

There is general agreement in the business community that continuation of the present system, with its skyrocketing costs and coverage exclusions, is no longer an option.

The U.S. Chamber of Commerce, the largest broad-based business organization, was among the first business groups asked to testify before a congressional committee in response to the president's Sept. 22 health-reform speech to the nation.

In testimony Oct. 7 before the Health Subcommittee of the House Ways and Means Committee, William T. Archey,

*In initiating a historic congressional debate over health reform, President Clinton calls for $30 billion a year in subsidies to help small companies buy health insurance.*




PHOTO: T. MICHAEL KEZA

**President Clinton** *answers small-business questions at a Washington hardware store.*

senior vice president for policy and congressional affairs, acknowledged that the president's plan incorporates several principles in line with Chamber policy.

"Chamber members recognize that employers have a critical role to play in reforming the health-care system," said Archey. "We are in favor of a system that achieves affordable health-insurance coverage by building on the strong current base of employer-provided health benefits.

"The Chamber supports the need for universal coverage," Archey continued, "and recognizes that it can only become a reality and be paid for through the shared responsibility of employers, employees, and government."

At the same time, Archey pointed out that the Chamber has "serious concerns" about a number of aspects of the Clinton plan, including:

- Establishment of regional health alliances that incorporate most of the population into a monopolistic purchasing structure that would hamper, not help, true competition.
- Creation of "a huge new bureaucracy, including a National Health Board, with excessive powers to regulate, monitor, and ultimately tax employers."
- Government-specified insurance-premium caps, rather than market forces, to set growth rates of health-insurance costs.
- Savings and revenue assumptions "that could prove to be very unrealistic" as a foundation for funding the president's reform plan.
- The requirement that employers pay 80 percent of the insurance-premium cost for employees.

"The 80 percent requirement for employers is entirely too high," Archey said. "It provides too little incentive for individuals to be thoughtful about their use of health services."

While the Clinton plan has dominated the headlines, a bipartisan group of 47 House members introduced an alternative on Oct. 6 that some observers expect may eclipse the president's plan. Rep. Jim

*Continued On Page 22.*

## The Clinton Plan's Impact On Small Business

**1** Every small business would have to pay a portion of its employees' health insurance. Companies with 50 or fewer workers and average annual pay no higher than $24,000 would have their costs capped as a percentage of payroll, beginning at 3.5 percent and rising to 7.9 percent. Companies with more than 50 workers would have their costs capped at 7.9 percent of payroll.

**2** Based on national averages, employers would pay $1,546 for each single worker without children and $2,480 for each worker with children—whether married or single. Many employers qualifying for premium caps would pay less.

**3** Employees would select a health plan from the range of plans offered by the regional purchasing alliance.

**4** Employers with fewer than 5,000 workers would no longer be allowed to self-insure.

**5** Regional purchasing alliances would have no role for insurance agents and brokers in selling standard health plans, but agents could sell supplemental policies.

**6** The self-employed and independent contractors would pay the entire cost of their insurance, but, like any other business, they would qualify for premium caps. The total cost would be 100 percent deductible as a business expense.

**7** Employee-leasing and temporary-worker companies would pay the 80 percent employer share of health insurance for all the workers they provide to other companies; leased and temporary employees would pay the balance.

**8** Part-time workers up to age 23 would be covered by their parents' health insurance and would not be an employer's responsibility.

**9** Employers would pay for all other part-time workers putting in 10 or more hours a week, prorated on the basis of 30 hours per week equaling full-time employment. Seasonal workers would be prorated on the basis of weeks worked.

**10** Employees could no longer use flex-plan pretax dollars to pay their share of health premiums or out-of-pocket expenses not covered by their health plan.

# Managed Competition

*Health-Care Delivery Under Clinton's Plan*

The seven-member National Health Board would regulate standard health-benefits packages and set national health budgets. The health alliances would be giant purchasing cooperatives through which individuals would choose health-insurance plans. Each health plan offered through an alliance would have to include the same standard benefits package. Alliances would enforce spending limits and distribute annual quality "report cards" on all plans. Competition among health plans would be on the basis of price and quality.



## National Health Board

1. Establishes requirements for state purchasing alliances and monitors compliance
2. Recommends to the president and Congress any changes in coverage under the national basic health-benefits plan
3. Sets and enforces national health-care spending limits



## Providers

1. Insurance companies
2. Health-maintenance organizations (HMOs)
3. Newly formed professional practice groups (groups of doctors and hospitals)
4. Preferred-provider organizations (PPOs)



## The Product

A standardized health plan covering most hospital and doctor's-office charges, preventive care, and prescription drugs; includes limited coverage for long-term care at home and mental-health services




## Customers

1. All companies with fewer than 5,000 employees
2. Employees of those companies
3. Independent contractors and the self-employed
4. The unemployed
5. Early retirees (ages 55 to 65)
6. The poor (those now receiving Medicaid)



## Purchasing Alliances

1. Screen and contract with health plans
2. Give consumers information about cost and quality of plans
3. Enroll individuals in health plans of their choice
4. Collect premiums from individuals and businesses and distribute money to health plans
5. Serve as ombudsmen to resolve coverage problems
6. Set and enforce fee schedules for doctors and other health providers
7. Monitor and enforce insurance premium caps

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PHOTO: T. MICHAEL KEZA

**Demand for primary-care** *doctors such as pediatricians would increase under the Clinton plan.*

*Continued From Page 19.*
Cooper, D-Tenn., the plan's chief architect, says he supports much of the president's proposal but thinks it "went too far to the left."

Like Clinton's plan, Cooper's proposal embraces the notion of managed competition, featuring purchasing cooperatives that would bargain on behalf of small companies. Unlike Clinton's, Cooper's plan would not impose price caps on insurance premiums, set a national health budget, continue unlimited business deductibility of insurance plans, or require employers to pay for workers' insurance.

Among all the rival health plans introduced in Congress, Coopers' is the only one thus far with a bipartisan base. It has 26 Democratic and 19 Republican cosponsors. (See the related story on Page 28.)

"The bipartisan support for the Cooper bill illustrates the real desire in Congress to achieve consensus," says Kristin Bass, a U.S. Chamber manager for human-resources policy. "The Chamber likes the fact that this first bipartisan effort avoids the onerous levels of federal regulation so prominent in the Clinton plan."

For the moment, Clinton's plan remains the most visible. As a rule of thumb, it would require employers to pay 80 percent of the average cost of a standard benefits package for workers and their families, and workers would pay the balance.

Using U.S. Small Business Administration data, supporters of the plan say that only a relatively prosperous minority of all small firms would actually pay 80 percent of their workers' health costs. That's because the plan would subsidize up to 55 percent of a small firm's health-insurance expenditures. (See the chart on Page 18.)

The largest subsidies would apply to businesses with 50 or fewer employees and average annual pay of $24,000 or less. For these firms, the administration proposes premium caps that would range from 3.5 percent of payroll for those with average pay of less than $12,000 a year to a maximum of 7.9 percent. (See the chart on Page 24.)

Most companies with fewer than 20 employees would qualify for a federal subsidy, according to Small Business Administration data. In 1990, the nation had 3.9 million firms with fewer than 20 workers, and they employed 17.1 million people. The average wage for those firms was $19,671, well within the range of the federal subsidies.

Companies too big to qualify for the sliding scale of premium caps—those with more than 50 workers—would still get a cap of their own. No company buying health insurance from one of the newly formed regional purchasing alliances—that includes all companies with fewer than 5,000 workers—would be required to pay more than 7.9 percent of payroll for health care. (See the chart on Page 18.)

For every small company that qualified for a premium cap, the difference between what an employer would pay and the actual employer cost of coverage would be made up by the federal government. When fully phased in by all the states no later than Jan. 1, 1997, this new entitlement is projected by the Clinton administration to cost the federal government about $30 billion a year.

The self-employed would also be required to purchase insurance from the regional purchasing alliances. Those earning less than $24,000 a year would qualify for the premium caps. Regardless of income level, the self-employed, including independent contractors, would be able to deduct 100 percent of their health-insurance costs, up from 25 percent under current law.

"If there is one group that will benefit from health-care reform, it is small business," says Paul Starr, an administration health adviser and Princeton University sociology professor. "They are getting a terrific bargain" on health insurance. "The subsidies are a windfall" for small-business owners and their workers, he adds.

The proposed subsidies represent a major concession to small-business owners. Among those who don't provide health insurance today, most say they simply can't afford it. The smaller the firm, the less likely that it offers coverage.

A nationwide survey last spring of firms with fewer than 50 workers found that 56 percent of those with under 10 workers did not offer health insurance; 30 percent of those with 10 to 24 workers did not offer health plans; and only 15 percent of those with 25 to 49 workers did not offer health plans.

The administration argues that it cannot achieve universal coverage within an employer-based system without requiring employers to pay a portion of workers' coverage. About 85 percent of the nation's 37 million uninsured either work or have family members who work. Thus, requiring employers to provide health insurance would cover virtually the entire uninsured population.

Paying anything at all, however, would be a hardship for some. But supporters of Clinton's plan point out that it would give the least prosperous companies insurance at a rock-bottom price. Companies qualifying for the 3.5 percent payroll cap, those with average salaries under $12,000 a year, would pay no more than $420 a year—$1.15 a day—per worker for health insurance.

For small companies not now paying for health insurance, the premium caps would hold the employer's cost for the standard benefits package below $1,000 per worker until average salaries exceeded $18,000 a year.

For most small companies that already provide health insurance with broad coverage for doctors' visits and hospitalization and that pay most of the cost, Clinton's plan could mean a decline in overall health-care expenditures.

That message wasn't lost on the small-business owners who met President Clinton at the W.S. Jenks & Sons hardware store in Washington on Sept. 16. But it did get lost in news media accounts of the question-and-answer exchange. The nightly news sound bites and much of the press coverage went to retailer Daryl Routzahn of Frederick, Md., who bluntly stated: "Mr. President, small business cannot afford this plan."

But several of the small-business owners in attendance said later that they favored the president's plan and that it would save them money.

Marilyn Hart, president of Design Plastics Inc., in Fort Worth, Texas, says she now pays about 12 percent of payroll—$136,000—to cover her 65 employees. For that, she gets hospitalization coverage for her workers only, not for their families. Under Clinton's plan, she would cut her cost to 7.9 percent of

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payroll—$89,500—and would save $46,500 a year. That would cover families and add preventive care. "The point is, if you carry health insurance for employees, your health-care costs could be less than what you had before," Hart says.

Bill Hutton, president of Hutton Industries, in St. Helens, Ore., pays 100 percent of the health costs for his nine full-time employees. He says the president's plan is "just about a wash for us financially." But he likes the "leveling effect" of the mandate on his competition. "We know for a fact that our competitors do not carry insurance for their employees," Hutton says. "Maybe this will put us on a little bit more level playing field."

Roberto DeVincentis, president of Vaeri Construction Co., in Binghamton, N.Y., pays each of his 30 workers about $5,000 a year in cash to purchase their own insurance. He estimates that about one-third pocket the money and remain uninsured.

Under Clinton's plan, DeVincentis would pay $1,546 for each single worker and $2,480 for those with children, substantially lowering his current costs. He would also substantially lower his payroll taxes because his health-care costs would no longer be part of his taxable wage base.

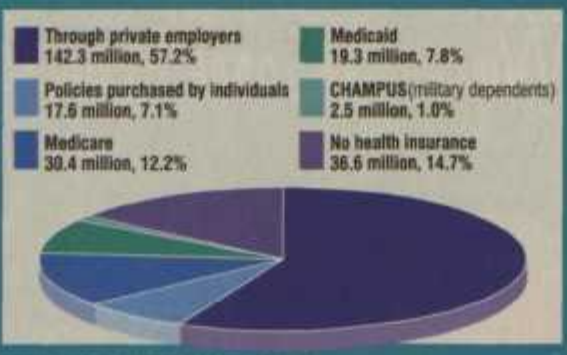
Not everyone who met with Clinton at the Washington hardware store would come out a winner. Routzahn, the Frederick, Md., retailer, and William Fergusen, a Denver restaurateur, would face large increases in their health-care costs. Both expect they would pay 7.9 percent of payroll for their health coverage.

Fergusen, who operates three Denver restaurants employing 200 people, sponsors a group plan, but his employees pick up the entire cost. He calculates that his 7.9 percent share of health-care coverage under Clinton's plan would cost $118,000 a year. "I don't have $118,000 in gross profit," he says. "I'd have to let people go. You can't push the cost on customers. A $10 hamburger won't work."

Routzahn calculates that the president's plan would nearly triple his cost for covering 95 employees in five retail stores. He said he currently spends about 2.9 percent of payroll to provide a plan limited to hospitalization. Routzahn told Clinton: "We cannot finance your proposed 7.9 percent payroll tax on the backs of small business without job loss."

In response, Clinton said: "If we don't do something to bring down costs, everybody will soon be doing what you are doing," purchasing bare-bones coverage. He also said that spiraling costs under the current health-care system will eliminate more small-business jobs than the reform program he has proposed.

## How Americans Obtain Their Health Insurance



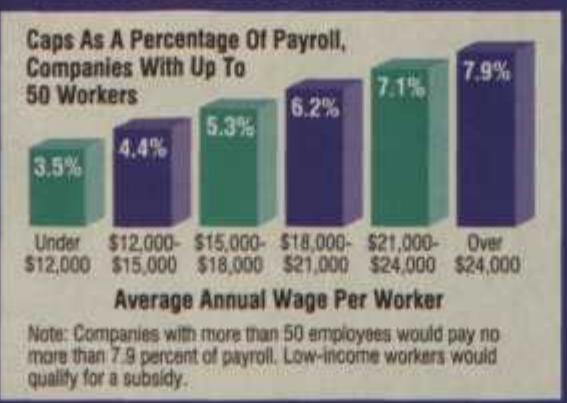

SOURCE: EMPLOYEE BENEFIT RESEARCH INSTITUTE

## Workers Who Lack Health Insurance

| COMPANY SIZE | % UNINSURED |
|---|---|
| Self-employed | 22% |
| Under 10 employees | 32 |
| 10-24 employees | 25 |
| 25-99 employees | 21 |
| 100-499 employees | 13 |

SOURCE: EMPLOYEE BENEFIT RESEARCH INSTITUTE

## How Caps On Employers' Costs Would Be Determined




Note: Companies with more than 50 employees would pay no more than 7.9 percent of payroll. Low-income workers would qualify for a subsidy.

SOURCE: THE WHITE HOUSE

CHARTS: AMY POOLER

Clinton's exchange with Routzahn was a preview of things to come as the debate over health reform moves to Capitol Hill. The mandate and its impact on small business quickly emerged as key issues.

Critics allege that the mandate would cripple the ability of small businesses to create jobs that fuel economic growth. Sen. Larry Pressler of South Dakota, ranking Republican on the Senate Small Business Committee, maintains that Clinton's plan "could translate into 1.6 million to 3.1 million lost jobs over five years." Supporters of Clinton's plan challenge Pressler's data, noting that the studies from which they are drawn did not take into account the impact of $30 billion a year in federal subsidies for small companies. At the same time, opponents of Clinton's plan point out that the administration has not backed up its own claims that the plan could be a net job generator.

Laura D'Andrea Tyson, chairwoman of the President's Council of Economic Advisers, said at an Oct. 6 news conference that no computer model exists that could accurately predict the effects of the administration's program on jobs. She acknowledged that the program could lead to the loss of about 550,000 jobs over several years. But the job losses, she added, could be offset by job gains at companies that saved money on their health costs.

What is known for sure is that small companies have been responsible for almost all of the nation's job growth over the past five years, according to David Birch, president of Cognetics Inc., a nonpartisan Cambridge, Mass., research firm. Companies with 19 or fewer employees created 78 percent of all new jobs between 1987 and 1992, according to Birch's recent study, *Who's Creating Jobs*.

Most of that growth came from a relative handful of companies. "We know that 70 percent of the jobs are being created by 4 percent of the firms," Birch says. But no data are available to show how many of these job-creating companies already offer health insurance. Congress ought to find out before it debates mandated health coverage, Birch says.

Even among those determined to fight the mandate, there is broad, bipartisan support for many of Clinton's proposals to

# Five Examples Of The Cost Effects

**The average cost of a traditional health-insurance policy in 1992 was $2,933 per employee, according to the U.S. Chamber of Commerce. The Clinton plan figures average costs of $2,100 per employee. Examples include owners.**



## Restaurant

**20 employees**
13 full-time
7 part-time teenagers

**Full-time payroll:**
$220,000
Teenagers are covered by parents' plan

**Average full-time wage:**
$16,923

**Cap on health costs:** 5.3%

**Total employer health costs:**
5.3% x $220,000 = $11,660

**Total average cost of coverage:**
13 x $2,100 = $27,300

**Federal subsidy:***
(difference between employer's cost and average cost of insurance): $27,300 - $11,660 = $15,640

*The federal government would pay a small firm's subsidy to its regional alliance, which would then distribute the subsidy to the health plans chosen by the firm's employees.



## Retailer

**10 employees**
5 full-time
5 seasonal part-timers for 2 months

**Full-time payroll:** $100,000

**Seasonal part-time payroll:**
$8,000

Part-timers worked 20 hours a week; two-thirds of a full-time job based on a 30-hour week (1,560 hours a year). The five part-time seasonal workers are equal to 0.51 full-time-equivalent workers. Here's the calculation: 5 workers x 20 hours a week x 8 weeks = 800 hours. Divide 800 hours by 1,560 hours = 0.51.

**Average full-time wage:**
$19,600
Total payroll of $108,000 divided by 5.51 full-time equivalent workers.

**Cap on health costs:** 6.2%

**Total employer health costs:**
6.2% x $108,000 = $6,696

**Total average cost of coverage:**
5.51 full-time equivalent workers x $2,100 = $11,571

**Federal subsidy:**
(difference between employer's cost and average cost of insurance): $11,571 - $6,696 = $4,875



## Manufacturer

**45 employees**
37 full-time
8 part-time adults

**Full-time payroll:**
$920,000

**Part-time payroll:** $45,760

Part-time employees worked 20 hours a week; prorated at two-thirds of a full-time job based on a 30-hour week (1,560 hours a year). Eight part-timers are equal to 5.3 full-time-equivalent workers. Here's the calculation: 8 workers x 20 hours a week x 52 weeks = 8,320 hours. Divide 8,320 hours by 1,560 hours = 5.3.

**Average full-time wage:**
$22,831
Total payroll of $965,760 divided by 42.3 full-time-equivalent workers (37 + 5.3 = 42.3).

**Cap on health costs:** 7.1%

**Total employer health costs:**
7.1% x $965,760 = $68,568

**Total average cost of coverage:**
42.3 full-time equivalent employees x $2,100 = $88,830

**Federal subsidy:**
(difference between employer's cost and average cost of insurance): $88,830 - $68,568 = $20,262




## Gas Station

**6 full-time employees**

**Total payroll:** $85,000

**Average wage:** $14,166

**Cap on health costs:** 4.4%

**Total employer health costs:**
4.4% x $85,000 = $3,740

**Total average cost of coverage:**
6 x $2,100 = $12,600

**Federal subsidy:**
(difference between employer's cost and average cost of insurance): $12,600 - $3,740 = $8,860



## Self-Employed

**Individual**

**Total earnings:** $20,000

Pays both employer and employee portions of health-insurance premium.

**Employee share:** equals 20 percent of the $1,933 average cost for an individual: $386.40

**Employer share:** equals 6.2 percent cap times total earnings of $20,000 = $1,240

**Total cost for self-employed:** $1,626.40

**Federal subsidy:**
(difference between individual's total cost of $1,626.40 and the average cost of insurance): $1,933 - $1,626.40 = $306.60

Total cost of $1,626.40 is fully tax deductible, reducing individual's net cost by $244 (assuming 15 percent tax bracket). Net individual health cost: $1,382.40

**Note: The calculations on this page are based on the latest premium-cap information available prior to publication. White House health-policy analysts reviewed the calculations for accuracy.**

correct what ails the nation's health-care system.

"The worst thing we could do is let the status quo continue," says Ira Magaziner, the administration's senior health-policy adviser. Under the current system, small companies have typically been hit with annual premium increases of 20 to 50 percent the past several years. Many others have been driven out of the market altogether. Many have resorted to "Swiss cheese policies," so full of exclusions and deductibles that only catastrophic coverage remains.

Clinton's health plan aims to eliminate such problems by restructuring the health-care marketplace along the lines of managed competition, a concept he says preserves a free market within the confines of broad government regulations. Rep. Cooper, however, argues that his reform plan adheres more closely to true managed competition than Clinton's does because his—Cooper's—does not rely on price controls to restrain costs.

At the heart of managed competition would be the regional health alliances, which would function as purchasing cooperatives on behalf of small businesses and individuals. They would use their collective buying power to reduce health-plan costs the same way large corporations have used their purchasing clout for years.

Shopping for a health plan would be relatively easy by today's standards. The current hodgepodge of plan designs offering different levels of coverage, deductibles, and copayments would disappear. A national standard benefits package would guarantee the same coverage anywhere in the United States. The proposed package includes preventive checkups, doctor's-office visits, hospital care, prescription drugs, and limited amounts of mental-health and home-based care.

The standard design would make it easy for individuals to compare health plans on the basis of price and quality, critical measures needed to fuel a competitive marketplace.

Plan costs would be determined by family status. Workers would pick from four categories. Current price estimates are based on national averages: single, $1,933; couple with no children, $3,865; single parent with children, $3,894; and couple with children, $4,361.

With the exception of single-worker health plans, for which employers would pay $1,560 per employee, no employer would actually pay 80 percent of plan costs. That's because Clinton's plan requires employers to pay a flat rate totaling less than 80 percent for all family insurance plans. Based on national averages (final figures would vary by region), employers would pay $2,480 for each worker with children, regardless of whether the worker is single or married, or whether the employee's spouse works. For each married worker without children, the employer would pay $2,125.

This flat rate would simplify employers' bookkeeping and eliminate potential employer discrimination against married workers—with or without children—whose spouses do not work outside the home.

Without the flat rate, employers would pay 80 percent of the cost for an employee with a nonworking spouse but only 40 percent of the cost for each worker in a dual-income household. In that instance, each company would cover half of the 80 percent employer share.

For dual-income couples, their employers' combined payment would more than cover the total cost of a family health plan. The extra amount would go to cover nonworking spouses.

While premiums under the Clinton plan would be low by current standards, they reflect the savings that the alliances would be expected to achieve.

Clinton's plan would overhaul insurance marketing. No insurers would be allowed to reject or cancel coverage for anyone because of a health condition. And insurance rates would not zoom upward once someone in a small group developed a costly illness. Premiums would be based on the average cost of treating everyone within a health plan—a practice known as community rating.

Alliances would serve many of the functions now provided by insurance agents and brokers, who would have no role in selling standard health plans. The alliances would distribute information about health plans, including "report cards" on overall quality; enroll individuals during annual open-enrollment periods; collect and distribute premiums to health plans; and serve as ombudsmen when problems arose.

In a sharp break with standard practice, workers—not their employers—would pick their health plans. Workers could choose any plan from the range of options offered by the local alliance. This would greatly expand the range of choices available to small-business employees.

The list of health plans would include three distinctly different types: health-maintenance organizations (HMOs); a traditional fee-for-service plan that would permit unrestricted choice of doctors; and a hybrid providing a preferred network of doctors but with the option to seek medical care from doctors outside the network and pay more.

While workers' compensation would remain a separate program, injured workers would get treatment from doctors in their own health plan. As a result, workers' comp medical costs would drop by 15 to 20 percent, the administration projects.

The administration maintains that competition among the health plans and administrative streamlining would cut annual health-cost inflation from about 10 percent today to about 3 percent by 2000.

As a "backstop" in case competition didn't work as well as intended, the Clinton plan would limit health insurers' annual premium increases to the overall rate of inflation, now about 3 percent.

Bass, of the U.S. Chamber, says that limiting premium increases is not a backstop but in fact is "at the forefront of this plan, which means we will never get a chance to see whether competition works if this plan is enacted."

Critics also maintain that the premium caps amount to price controls that would lead to health-care rationing. White House adviser Magaziner says the premium caps are a fail-safe mechanism designed to "prevent subsidies from going through the roof."

The administration has also struggled to defend its assumptions about financing its reform plan, which projects $350 billion in new health-care spending through 2000. The plan projects $238

## Write Us With Your Questions

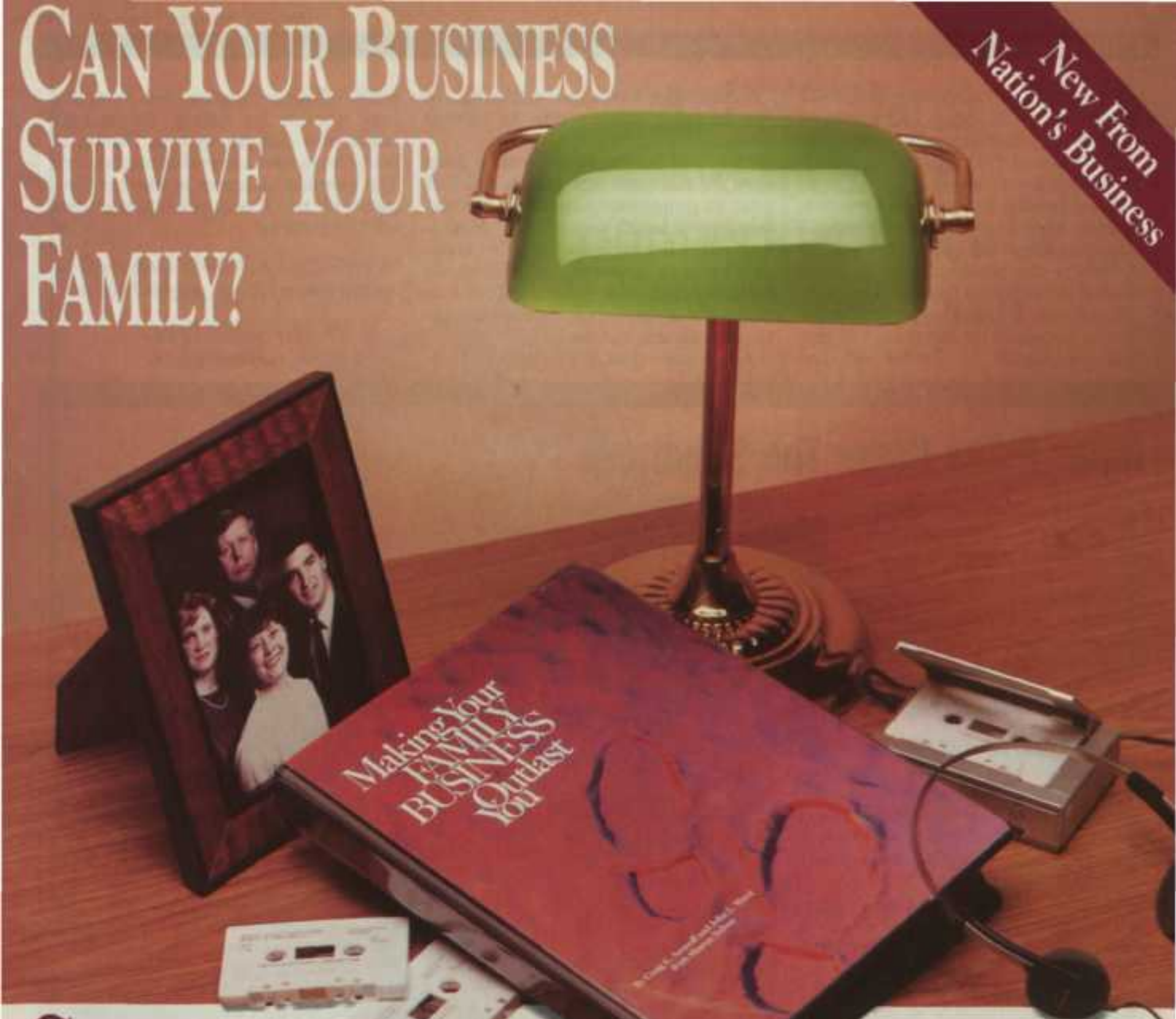
Send us your questions about how health reform would affect your company. In future issues, we will answer as many as we can. Address your questions to: *Nation's Business*, Health Reform Questions, 1615 H Street, N.W., Washington, D.C. 20062-2000.



PHOTOS: T. MICHAEL KEZA

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billion in savings from slowing the growth of spending on Medicare and Medicaid, $105 billion in cigarette and possibly other "sin" taxes, and $98 billion in miscellaneous savings and revenue.

Based on early congressional reaction, it seems likely that the administration's financing scheme will be declared dead on arrival when the president officially sends detailed legislation to Capitol Hill.

The debate over this and other issues, such as the employer mandate, will continue for months on Capitol Hill and around kitchen tables across America. No one expects Clinton's plan to emerge intact.

"We don't believe we are coming down from the mountain with tablets and that what we propose are necessarily the best solutions to health-care reform," Magaziner says. He suggests that the president's plan be viewed as the "opening of a national debate over reform. We see it as a process of developing consensus over the next several months."

After more than a generation of on-again, off-again congressional wrangling over whether to reform the nation's health-care delivery system, Clinton at least has secured one preliminary victory. The question no longer is whether Congress will act. The question now is what will Congress do? NB

*To express your views on health reform, see the Where I Stand poll, on Page 76.*

*To order reprints of this article, see Page 78.*

# Other Plans Cover The Spectrum

President Clinton's health reform plan has lots of company on Capitol Hill. Republicans and Democrats alike are offering their own reform plans, not so much to supersede the president's but to define more sharply the terms of the coming congressional debate.

At the extremes are plans by liberal Democrats and conservative Republicans.

Liberals in both the House and the Senate favor a Canadian-style government-run plan that would tax individuals and businesses to finance the system and would pay the bills. Fifty-eight members of Congress co-sponsored such legislation last year.

Conservative Republicans, led by Sen. Phil Gramm of Texas, would require employers to offer health-care options to their employees, but not to pay for them. Gramm also favors medical IRAs, which would allow individuals to set up tax-deductible savings accounts to pay for routine health expenses. Major expenses would be covered by employer-paid insurance plans for catastrophic illness.

A similar proposal has been endorsed by 106 House Republicans. It would require employers to make health insurance available at group rates to their workers, who would purchase it at their own expense. The proposal also favors medical IRAs, medical liability reforms, paperwork reduction, and insurance market reforms that would limit the ability of insurers to refuse coverage or charge different rates based on health status.

Along with the Clinton plan, those plans considered at the center of the debate have been offered by a panel of GOP senators headed by Sen. John H. Chafee of Rhode Island, and by Rep. Jim Cooper, D-Tenn., representing a group of conservative Democrats in the House.

Like Clinton's plan, the Chafee and Cooper plans embrace the concept of managed competition, featuring purchasing cooperatives bargaining on behalf of small businesses and individuals. They also advocate insurance market reforms.



PHOTO: TERRY ASHE

**There are differences, and we'll get them ironed out.**
—Sen. John H. Chafee



PHOTO: RICHARD STRAUSS, © HOUSE

**Clinton's plan veers off to the left, but managed competition is still squarely in the middle.**
—Rep. Jim Cooper

But neither Chafee nor Cooper would mandate that employers share the cost of health insurance with their workers. "Clinton's plan veers off to the left [with the mandate], but managed competition is still squarely in the middle," says Cooper.

Nor do Chafee and Cooper favor regulation of health insurance premiums, a controversial feature of Clinton's plan.

In the bipartisan spirit that has marked the reform debate thus far, Chafee optimistically notes: "There are differences, and we'll get them ironed out. I think he [Clinton] has laid a wonderful basis."

Chafee's plan is the product of three years of study and has been endorsed by 23 of the 44 Republicans in the Senate. A number of its provisions differ substantially from parts of the Clinton plan. For example, while the Chafee plan includes a standard benefits package similar to Clinton's, it would allow individuals to choose medical IRAs combined with a catastrophic-insurance plan.

To subsidize those unable to afford coverage, the Chafee plan would phase in by 2000 a voucher system to help all of those with incomes below 240 percent of the federal poverty level (or an income of $33,600 for a family of four under the current measure) to purchase health insurance. Subsidies under the Clinton plan would be fully effective by 1997.

Like the Clinton proposal, the Chafee plan projects huge savings from limiting the growth of Medicare and Medicaid spending. The GOP plan projects $210 billion in savings by 2000; Clinton projects $238 billion.

Cooper's plan represents the work of the Conservative Democratic Forum, composed of 60 House Democrats. It relies more heavily on competition and tax incentives to restrain cost than the president's plan.

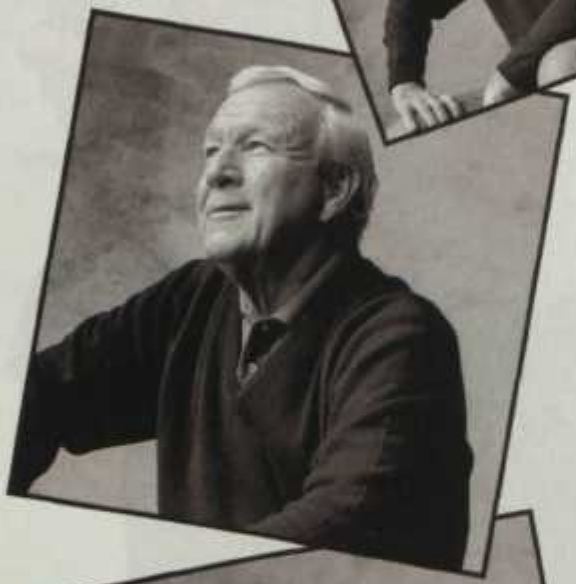
Under Cooper's approach, individuals and companies would be taxed on the cost of health plans that exceeds that of the least expensive plan offered by a regional health alliance. The taxes raised from this new levy would go to pay for health insurance for the poor.

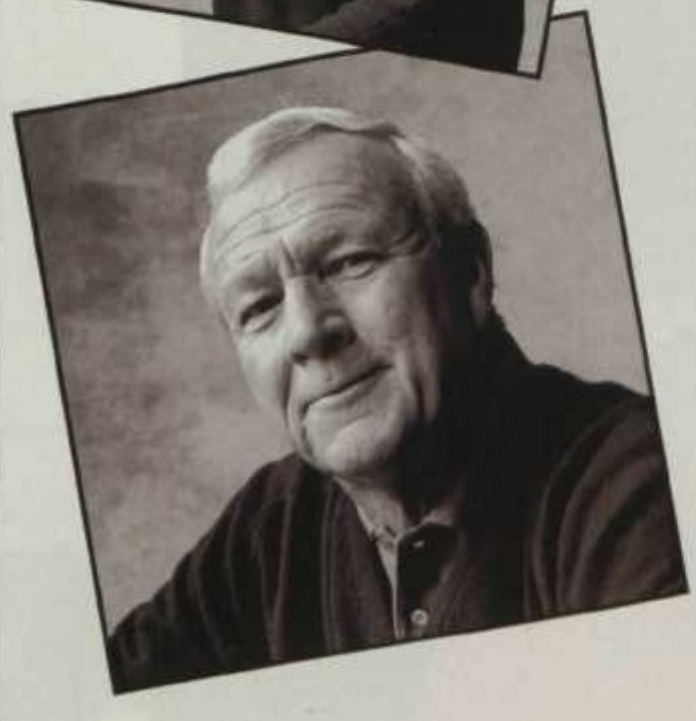
While it is not clear how much of its plan the Clinton administration would sacrifice to achieve a compromise, the political mood at the White House and on Capitol Hill suggests that all of the major players in the reform debate want to find a bipartisan middle ground.

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# Heaven Help Us

*After relatives, friends, and banks, "business angels" can be the saviors of a start-up.*

*By Dale D. Buss*

For nine months, Dr. Robin Potter scoured the Plains in search of fellow visionaries to invest in his idea of a national health-care credit card. He schmoozed and he networked. He developed a marketing plan and a slide presentation that he showed to hundreds of investors in individual meetings.

By early 1989, Potter, a 42-year-old dentist from Overland Park, Kan., had located about 20 individuals willing to invest a total of $700,000 to make his idea a going concern. Now, nearly 10,000 physicians in 50 states are customers of PulseCard Inc., based in Overland Park. Each year, PulseCard transactions total more than $35 million.

Potter, who gave up his dental practice to demonstrate to investors how serious he was about PulseCard, is certain his angels will be happy that they had confidence in him. "They believed I could do what I said I would do," he says.

Potter found what many entrepreneurs hunger for: bold individuals able and willing to provide them with enough capital to move their start-up to the next phase. Known as "business angels," they are the only source of seed capital for many start-ups. By the time angels appear, most business owners have already tapped out friends and relatives and have been rejected by numerous banks.

The pool of today's angel capital is five times the amount in the institutional venture capital market, providing money to 20 to 30 times as many companies, says William Wetzel, director of the Center for Venture Research at the University of New Hampshire. He says angels invest more than $10 billion a year in 30,000 to 40,000 companies nationwide, twice the amount of money and twice the number of companies five years ago.

Angels are typically entrepreneurs, retired corporate executives, or professionals who have a net worth of more than $1 million and an income of more than $100,000 a year. "They're self-starters," Wetzel says. "And they're trying to perpetuate the system that made them successful."

Investments range from $5,000 to $1 million; they are usually about $100,000. In exchange for high risk and low liquidity, angels expect blazing returns, typically 500 percent on their investments within five years, Wetzel says.



PHOTO: CHUCK KNEYSE—BLACK STAR

**Dentist-turned-entrepreneur** *Robin Potter rounded up a score of angels whose investments helped him launch PulseCard, his national health-care credit card.*

"Everybody hopes they're going to back the next Microsoft," says Bryan Dilworth, director of the Georgia Capital Network, an Atlanta-based regional matchmaker for angels and entrepreneurs.

Because an angel might score real hits only 5 to 10 percent of the time, the ability to liquidate the stakes in those winners is crucial. That means entrepreneurs, if they're successful, must in several years expect to buy out or reward their angels through a public stock offering, a sale of the company, or a large venture-capital infusion.

What sort of entrepreneur can hope to gain an angel's confidence and cash? The answer is someone whose business, even if it is losing money, shows promise to grow. Ownership teams of two or three, with their inherent checks and balances on egos and bad ideas, are attractive to angels. And angels especially like entrepreneurs with new technologies.

"These investors are looking to create jobs for the whole economy," says B.J. Hulen, operations manager of the Technology Capital Network Inc., a Cambridge, Mass., matchmaker affiliated with the Massachusetts Institute of Technology. "Too many entrepreneurs are looking just to get themselves jobs."

Experience is vital. "Everyone's got ideas, patents, and inventions, and everyone lives on the edge," says Douglas Drane, a Nashua, N.H., angel. "But investors want to find survivors, the ones who already have been around a while before they need help. You've got to show some ability to hold something together."

Angels also like an entrepreneur to have some exclusive lock on the business, something related to geography, technology, distribution method, market access, or personal or business relationships, says Dick Morley, an angel who is also president of Flavors Technology Inc., an artificial-intelligence company in Amherst, N.H. "We're looking for someone who's got 100 percent of a zero market," a market that has yet to be tapped, says Morley.

There is also the crucial intangible of character. Angels like people who are as driven as most of them are, people who have, as Morley says, "a missionary complex."

Drane, who has invested in 12 ventures, most related to software, in the last five years, says, "We want to back someone who likes to clear high hurdles, who likes to strain and not take life at a snail's pace. The main thing is commitment."

Entrepreneurs such as Anson Hall appeal to angels. Hall, a retired car dealer, is trying to launch "the second revolution in table settings" with his Neater Eater, a 2-inch-long, disposable utensil rest that he hopes to sell to casual restaurants.

Angels have already invested close to the $240,000 Hall believes he needs to

*Dale D. Buss is a free-lance writer based in Cedarburg, Wis.*



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PHOTO: PATRICIA CORDELL

**Marketing executive** *Ed Gronke became an investing angel as well as a vice president at Virtual Corp., a maker of hearing-test instrumentation. With him is purchaser Marianne Payson.*

start production at his Exeter, N.H., company, Utensil-Rest Inc. He is hoping for an initial public offering to help him raise additional cash down the road. "This should be a cash cow," the 73-year-old inventor says of his product. "It's a very needed thing. There are no bricks and mortar. And I'm a zealot about it."

Given that making businesses succeed is their passion, many angels want to invest not only their cash in a venture but also their knowledge, experience, and energy. Such angels are increasing as corporate downsizing and golden-parachute separation agreements spawn more and more well-to-do former executives looking for opportunities.

"A lot of small companies think they need a lot of money," says Andrew Sherman, a Washington, D.C., lawyer who specializes in start-up financing. "But what they really need is some money and a lot of expertise."

Some angels want regular meetings with the entrepreneur, a reason why most traditionally prefer to invest within 50 to 100 miles of their homes. Other investors want a role in running the enterprise that they have chosen to support.

Ed Gronke ended a 32-year marketing career with a large company in 1990 and eventually invested about $100,000 in Virtual Corp., a Portland, Ore., manufacturer of computer-controlled instrumentation that tests hearing. Gronke became vice president of sales, marketing, and general administration of the 15-employee company.

"The company had started in 1985, but they were pretty much at a plateau," says Gronke, 60, who was marketing manager of Portland-based Lincare, the medical-products division of Union Carbide Corp. "[Virtual] had a good, unique product. They just needed funds and someone to help them try to sell it."

One way to hook up with a business angel is through one of several regional networks. (See "For Further Information," on Page 34.) The networks send angels thumbnail descriptions of companies in search of phone numbers and capital, then back off and let the angels research and contact the companies.

Several regional networks, including Georgia Tech University's Georgia Capital Network and the University of Texas' Texas Capital Network, hope to form a national database.

An example of service provided by the regional networks is Paris Chocolates Inc., a 6-year-old manufacturer of gourmet candy bars in Montclair, N.J. Its founder and president, John Paris, wanted "brain financing," someone with expertise who would also have a vested interest in the company. Paris got in touch with an expert in trademarks and marketing who attended an MIT Technology Capital Network seminar. This angel became a member of the company's advisory board as well as an investor.

Another source of start-up capital comes from organizations of potential investors. "Many angels would rather have deals brought to them in the locker room at the country club than have something brought to them by what they consider a computer dating service," according to Sherman, the Washington-based lawyer. John Harrington, a Cambridge, Mass., new-venture consultant, boasts, "On one page of our Rolodex, we've got more people than all the networks." Wetzel, the University of New Hampshire researcher, says that "if you've found one angel, you've probably found half a dozen" in an organization of trusted friends and associates.

One such group is Investors' Circle, based in St. Charles, Ill., an organization of more than 100 angels who are able to invest from $100,000 to $10 million in ventures related to such "socially responsible" activities as recycling, alternative fuels, and affordable housing.

"There's a dramatic need for angels to find companies they can believe in, and there's a lot of opportunity to make money," says Susan Davis, executive director of Investors' Circle. Members include Peggy Hitchcock, a granddaughter of Andrew Mellon who attends meetings with her trust officer, a senior vice president of Mellon Bank, in tow.

Another angel klatsch is the Breakfast

## Keep The Plan Simple And Specific

Here is what a typical group of venture angels, the Nashua, N.H., Breakfast Club, requires of any new-business plan submitted to it, according to guidelines written by Dick Morley, a member:

- No more than 20 pages, leading with a one-page executive summary. There should be no more than three pages of financial information, including the existing balance sheet, profit-and-loss sheet, and a spreadsheet of budgetary estimates on a quarterly basis of last year, this year, and next year.
- A short description of the business. If you can come up with a slogan to describe your firm, that's fine. Say how well you are doing in a couple of paragraphs.
- What your dreams are—realistic and unrealistic—for the future.
- How you plan to help owners recover their investment.
- What your market and unique advantages are. These should dominate the description.
- A description of the existing ownership structure and any legal or ownership entanglements—real or imagined—that may surprise prospective owners.

# Turning Dreams into Realities



The "Hitachi Promise of Tomorrow" scholarship program encourages student athletes to take the lessons learned on the football field today and teach children in the classrooms tomorrow.

## Encouraging Student Athletes to Become Teachers

During his three years as nose guard on Louisiana State University's football team, John Mawae came to know the thrill of victory and the agony of defeat. But nothing moved him more than working with disabled children in a Special Olympics held at LSU. "Seeing those kids realize their dreams against all odds really got to me," Mawae recalls. "I knew then what I wanted to do: help kids like them realize their dreams."

Mawae will get that chance, thanks in part to the "Hitachi Promise of Tomorrow" scholarship program created by the College Football Association (CFA) and sponsored by Hitachi, Ltd. Started last academic year, the program awards $335,000 in scholarships at the 67 CFA member universities. At each university, a $5,000 scholarship is awarded to an outstanding senior or graduate student who intends to become a teacher and has participated in the school's football program as a player, trainer, or manager. Mawae, a 1992 scholarship recipient, intends to use his grant to pursue a career teaching kids with special needs.

"Teaching plays an important but undervalued role in society," says Charles M. Neinas, the CFA's executive director. "We'd like to encourage more student athletes to pursue this field, because we think that what they learn on the football field helps to make them effective teachers in the classroom."

Nicole Hagner, a recent University of Pittsburgh graduate, agrees. "Athletics teaches you that it's possible to turn the right dream into a reality through hard work, discipline and teamwork. I'd like to bring that lesson to the classroom," she says. Hagner, who served as a student trainer on Pitt's football team, plans to use her grant to become certified as a high school biology teacher.



Nicole Hagner, University of Pittsburgh graduate and 1992 scholarship recipient.

As college football fans and parents of school-age children, we are proud to be a part of the "Hitachi Promise of Tomorrow" scholarship program. We hope that it helps more student athletes like John and Nicole to realize their dreams of becoming teachers.

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# Where Angels Don't Fear To Tread

Say you're an entrepreneur and you need an angel. Where do you look, besides heavenward? I recently imagined myself as a metropolitan Milwaukee entrepreneur and tried to get some answers.

John Harrington, a Cambridge, Mass., new-venture consultant, warned me that "it would be a challenge because a lot of these people really don't want you to know they're out there."

On the other hand, I knew that the high-net-worth people I was looking for tend to be wherever the money is: investing circles, foundations, civic organizations, country clubs, even airports.

"A high percentage of angels are private pilots because it costs some money and requires the kind of spirit it takes to be an entrepreneur," says William Wetzel, a University of New Hampshire authority on the national angel economy.

So I called investment bankers I knew: The head of a local foundation. The president of a small-business-investment corporation. The head of a bank. The head of the venture-capital arm of the area's biggest utility. The chief of a publicly held concern known for buying and selling companies. An insurance-company CEO who is active in the community. The business schools of area universities. The local Service Corps of Retired Executives, a Small Business Administration program.

I ended up with a few leads. One was a huge local law firm where a handful of lawyers pool their capital and invest in clients' ventures. Another was an engineering professor who made a fortune consulting. There was a handful of members of old-money Milwaukee families who do some investing.

I saw an article in a local newspaper about a small printing-production firm that found an angel to help it expand to its current fast-growing status. I called the owners of Wisconsin Technicolor Inc. and found out that their investor had been their biggest customer.

I heard about a couple of investing groups. One was Wisconsin Venture Network, which invites entrepreneurs each month to make pitches to a group of investors. The second, the Adventurers, is an 8-year-old networking group of about 20 lawyers, bankers, consultants, and investors who meet to discuss ventures and acquisitions.

"It's difficult to track these people," says Doug Pavek, president of a local investment firm and head of the Adventurers. "They'll sneak up on an investment without telling you. They know what happens if they get identified: They get so many calls that that's all they would do all day long."

Club, which has met monthly for 23 years at the Nashua (N.H.) Country Club. Members often pool their money and invest about $1 million per venture.

Before the entrepreneur even has a detailed business plan, the group may invest $5,000 to $100,000; second, third, and even fourth rounds of financing may follow.

Members examine about 100 possible deals a year, but they and their affiliates invest in only 2 to 4 percent of them.

Dick Morley and his fellow investors won't meet with an entrepreneur who insists upon bringing a lawyer. "A lawyer makes money working on interference and friction between two parties," he says. "But I'm not their enemy; I'm part of their foundation."

The line between failure and success in angel-entrepreneur relationships is often a fine one. That is part of the calculus of such high-risk arrangements, in which financial disappointment is the most likely outcome. But failure can still be painful and messy, especially for the entrepreneur.

Michael Shattow got angel funding of $600,000 five years ago for his young company, Multitrack, which provided management and cost-accounting software for large computer operations. The investment became $1.2 million as Boston-based Multitrack last year grew profitable with $6 million in annual sales and 50 employees.

When Multitrack needed more capital to develop "client-server" software, "the investors ran out of time and energy and interest," Shattow says. His primary angel was a 94-year-old former furniture dealer "who wasn't looking for a three- to five-year payout." So Shattow, 40, sold out to his investors and is looking for a new venture.

On the other hand, a handful of angels who have invested almost a half-million dollars has kept Richard Ludden, 63, a former computer executive, afloat. For nearly six years his Lincoln, Neb., company, PermaBar Technology, has searched for customers. The firm, which etches universal product codes onto metal, has dealers lined up but no major orders so far.

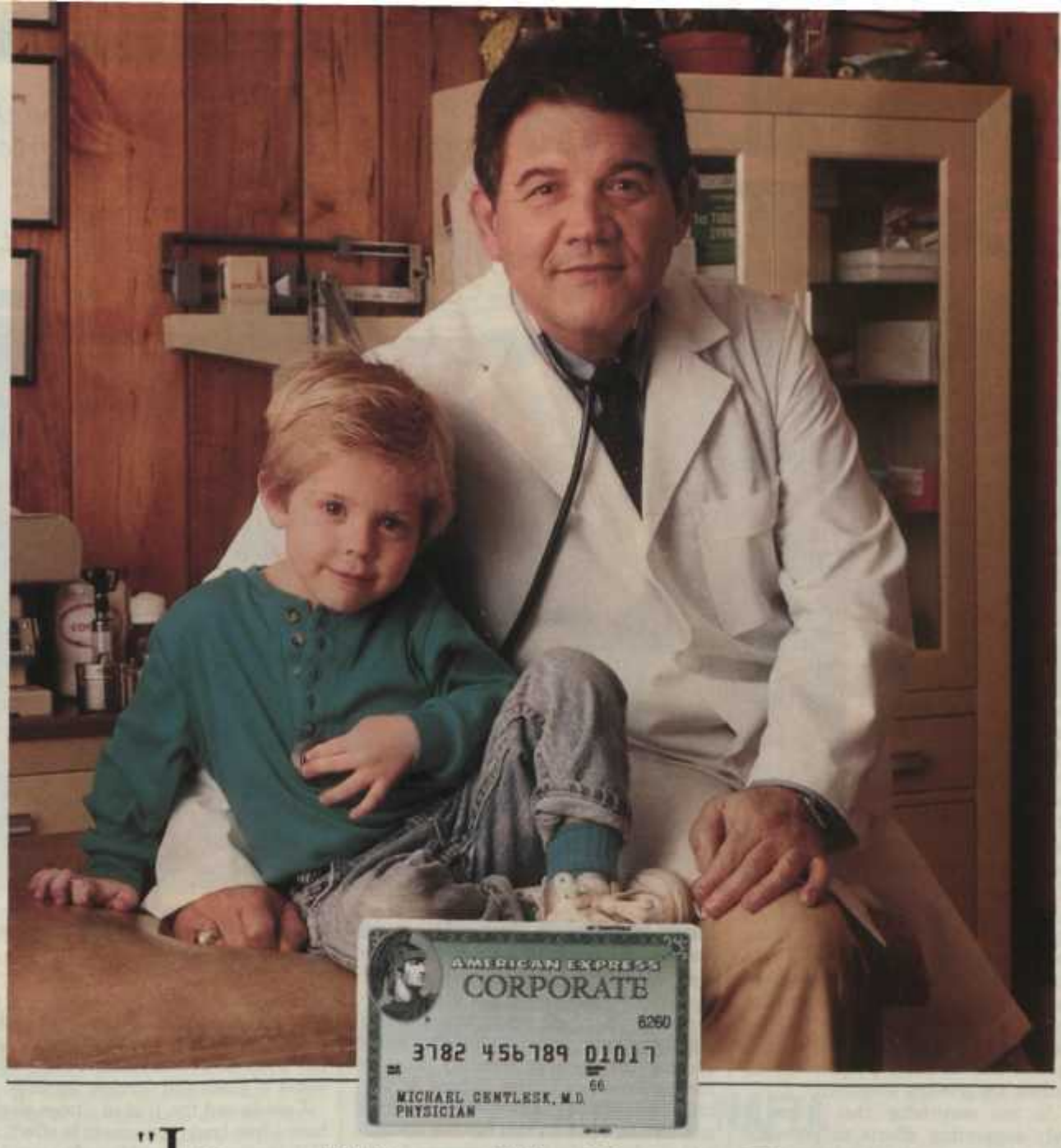
"Any other type of capital would have left me a long time ago," Ludden says. "It's taken me far longer to get off the ground than I anticipated. But my angels have never put any pressure on me. This has been a good way to go." NB

*To order reprints of this article, see Page 78.*

## For Further Information

Here are some sources of information on angel capital:

- The Breakfast Club, in Nashua, N.H.; contact Dick Morley; (603) 878-4365.
- Center for Venture Research, University of New Hampshire; (603) 862-3369.
- Georgia Capital Network, Georgia Tech, Atlanta; (404) 894-5344. Cost: free to investors; one-time $75 fee for entrepreneurs. About 45 investors and 40 entrepreneurs are listed.
- Investors' Circle, St. Charles, Ill.; (708) 876-1101. Cost: $150 to entrepreneurs. About 120 investors are listed; the number of entrepreneurs varies each month.
- Kentucky Investment Capital Network, University of Kentucky, Frankfort, Ky.; (502) 564-7140. Cost: free. About 40 investors and 30 companies are listed.
- Northwest Capital Network, Portland, Ore.; (503) 282-6273. Cost: yearly fees of $250 for investors, $100 for entrepreneurs. About 60 investors and 200 entrepreneurs listed.
- Private Investors Network, University of South Carolina at Aiken; (803) 648-6851, Ext. 3518. Cost: a one-time $210 fee for investors, a one-year $100 fee for entrepreneurs.
- Technology Capital Network Inc., MIT, Cambridge, Mass.; (617) 253-8214. Cost: $250 each for investors and entrepreneurs, listing on database for six months.
- Texas Capital Network, University of Texas, Austin, Texas; (512) 794-9398. Cost: one-time fees of $450 for individual investors, $950 for venture capitalists and corporate investors, $350 for entrepreneurs. Currently lists about 300 investors, mostly individuals, and about 400 companies.
- Venture Capital Network of Minneapolis-St. Paul, University of St. Thomas, St. Paul, Minn.; (612) 223-8663. Cost: free. The netwok is currently operating on a limited basis.




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INTERNATIONAL TRADE

# Why Small Firms Back NAFTA

*With the outcome in Congress uncertain on the agreement to extend free trade to Mexico, small companies are urging lawmakers to approve it.*

*By Albert G. Holzinger*

Maecor International, a family-owned business in Sandston, Va., has provided food-processing equipment to industrial facilities across the United States for over half a century. But, like many small companies, it began exporting only recently.

Stephen Nunn, the third-generation company head, launched the firm's international sales efforts in 1989. He helps foreign customers design efficient product-processing lines and then exports the required equipment to them.

The first market Nunn sought to penetrate was Mexico's meat industry. While growing rapidly, it was "about 20 years behind ours," he says.



PHOTO: T. MICHAEL KEZA

**Maecor International's** *Stephen Nunn, right, oversees packaging of a food-processing machine for export to Mexico, where business is good, he says.*

Building on successes in Mexico, Nunn extended Maecor's operations to Costa Rica, Guatemala, and elsewhere in Central and South America. Nevertheless, he believes that "Mexico continues to offer the best potential to us because it's such a big place, has so many people, and its industries are growing so quickly."

It is not surprising that Nunn is actively supporting efforts to persuade Congress to approve the North American Free Trade Agreement (NAFTA), which would make Maecor more competitive in Mexico by eliminating the 30 percent tariff on its export products and curtailing what Nunn characterizes as "hefty delays" and "mounds of paperwork" facing its customers at the border.

Also supporting the free-trade pact is Mickey Simmons, a small-business owner well-versed in the ins and outs of trading with Mexico. Simmons' New Harmony Coffee Roasters plant in Philadelphia imports high-quality, green coffee beans from Mexico and sells ground coffee to U.S. hotels, restaurants, and specialty food stores.

Simmons also owns Atlas Steel, which buys scrap metal throughout the United States, processes it in Salt Lake City, and exports the steel to manufacturers in Mexico.

"My view of NAFTA is that, now and in the long run, it will really help the U.S. economy," he says. "I think steps toward opening the Mexican economy taken so far [by President Carlos Salinas de Gortari] have helped the U.S. economy grow, and I think NAFTA will further advance and accelerate the growth process."

As far as his own businesses are concerned, Simmons says, if the Mexican economy continues to do better under NAFTA, then farmers will have more capital to put into growing first-rate coffee, and the demand for steel will increase.

Nunn's and Simmons' trading successes in Mexico and their enthusiasm for NAFTA typify the experiences and attitudes of countless American entrepreneurs, the U.S. Chamber of Commerce says. The Chamber has assumed a leadership role in rallying the owners, managers, and employees of small and midsize U.S. businesses in support of NAFTA, which faces strong opposition on Capitol Hill.

Congress is scheduled to vote on the agreement late this month or early in December. If approved, NAFTA will tie the Canadian, U.S., and Mexican economies into the world's largest and richest commercial entity: about 370 million people producing more than $6.5 trillion worth of goods and services annually.

Canada and the United States already have a free-trade agreement in effect, and U.S. businesses would benefit most from provisions of NAFTA that would make U.S.-Mexico trade more extensive, more profitable, less cumbersome, and even more secure.

Among those provisions, negotiated by the Bush administration and supplemented by side agreements worked out by President Clinton's trade officials, are:

■ **Tariff Reductions.** Mexican tariffs on U.S.-made products are now, on average, 250 percent higher than U.S. duties on Mexican goods. NAFTA would correct this imbalance by phasing out all tariffs over 15 years, with about 50 percent to be eliminated when the agreement takes effect, which is scheduled to be next Jan. 1. Hefty Mexican customs-user fees would be eliminated by 1999.

■ **Nontariff Barriers.** Most nontariff barriers to the free—and most profita-




PHOTO: EDWIN WOO-DALLAS MORNING NEWS-GAMMA LIAISON

**Despite consensus forecasts** *that NAFTA would create hundreds of thousands of jobs for Americans, unionists such as Jaime Martinez of Dallas vehemently oppose the agreement. The AFL-CIO will work to defeat lawmakers who vote for the pact.*

ble—flow of goods, services, and capital between the United States and Mexico would be eliminated through 2008. For example, under the agreement, Mexico would open its border and interior to U.S. truckers and streamline border processing and licensing requirements by the turn of the century. Nontariff barriers are often the biggest hurdles small exporters and their customers face, notes Maecor's Nunn.

■ **Standards.** NAFTA participants would seek to toughen health, safety, and industrial standards to the most stringent levels among them—almost always the U.S. or Canadian standards—and forgo attempts to use standards as trade barriers.

Terms of the agreement would also speed export-product inspections and certifications.

■ **Supplemental Agreements.** Supplements to NAFTA negotiated by U.S. Trade Representative Mickey Kantor, President Clinton's top trade official, are intended to ease concerns that Mexico's lower wages would cause U.S. companies to shift jobs to that country and that increased Mexican industrialization under NAFTA would intensify pollution problems despite Mexico's tough environmental laws.

Under the side agreements, Canada, the United States, and Mexico agreed to establish commissions to deal with labor and environmental issues that may arise. The commissions would be authorized to impose stiff fines against any government failing to enforce its laws consistently.

(For more on NAFTA and its promise for small and midsize companies, see the December 1992 cover story in *Nation's Business*, "Broader Horizons For Free Trade." To order a reprint, No. 8924, for $1.99, call 1-800-692-4000.)

NAFTA's potential for U.S. companies of all sizes is demonstrated by the explosive growth of U.S. exports to Mexico since 1987, which roughly coincides with the start of Mexico's economic-reform efforts. During the six-year period, according to the U.S. Department of Commerce, U.S. sales south of the border have grown from $12.4 billion to $40.6 billion, and a U.S. trade deficit of $5.7 billion has

## Opposition Imperils NAFTA

Senators and representatives leading the fight in the U.S. Congress for approval of the North American Free Trade Agreement (NAFTA) are warning supporters of the agreement who have small and midsize businesses that unless they act now it will be too late.

Television appearances and TV and printed advertisements encouraging opposition to NAFTA have generated so much mail that clerks are working overtime these days on Capitol Hill.

Unless business people around the country and their employees counter soon, Rep. Robert T. Matsui, D-Calif., and others say, the free-trade agreement will be killed by the House of Representatives.

"While Washington-based organizations like ours will continue to hammer away at members of Congress, it's individuals at the grass roots that will determine the outcome," says William T. Archey, senior vice president for policy and congressional affairs of the U.S. Chamber of Commerce, which is urging its 215,000 business members to contact their members of Congress in support of the agreement.

Moreover, says Christine A. Russell, the Chamber's liaison with the House, "Members are telling me, 'I don't need to hear just from employers; I need to hear from their employees, too.' "

If you—and your employees—wish to express support for NAFTA, the addresses are: U.S. Senate, Washington, D.C. 20510, and U.S. House of Representatives, Washington, D.C. 20515.

The Senate's switchboard number is (202) 224-3121; the House's is (202) 225-3121.

become a trade surplus of $5.4 billion. Currently, Mexico is the United States' third-largest trading partner, behind Canada and Japan, and it is the second-largest purchaser of U.S. manufactured goods and the third-largest buyer of agricultural products.

Each of Mexico's 80 million people buys, on average, $450 worth of U.S.-made goods per year. In comparison, the average Japanese consumer, whose annual income is eight times higher, spends only $385 a year on U.S. products. Overall, U.S. exports account for 70 cents of every dollar Mexicans spend on foreign goods.

The Clinton administration says 700,000 Americans now owe their high-paying jobs to exports to Mexico, and 19 of 20 authoritative studies of NAFTA's potential impact on the U.S. economy conclude that domestic employment will increase as a result of free trade. The administration also estimates that NAFTA will spark creation of 200,000 U.S. jobs by the end of 1995.



PHOTO: LAURENCE L. LEVIN

**The trade pact is "not a favor for Mexico; it is a good deal for American workers, companies, and farmers."**
—Trade Representative Mickey Kantor

Nonetheless, NAFTA is in trouble—big trouble—in Congress, especially in the House of Representatives, where it is opposed by Majority Leader Richard A. Gephardt, D-Mo., and Majority Whip David E. Bonior, D-Mich.

The conventional wisdom is that President Clinton must garner the support of at least 100 of the 258 House Democrats to gain the 218 votes needed to pass NAFTA, and he is still far short of that number, the agreement's supporters say.

Organized labor has been NAFTA's staunchest opponent, and 1992 presidential candidate Ross Perot has been its most vocal.

The unions, which have opposed NAFTA from the outset, fear membership losses and want the agreement to provide them explicitly with the right to organize Mexican workers. The unions are telling members of Congress that opposition to NAFTA is a condition of labor's financial support in the 1994 election cycle.

Perot, who used to praise NAFTA when his full-time activity was running a business, now spends much time decrying the agreement in speeches and on talk shows. By now, most Americans have heard Perot's contention that NAFTA will trigger the "giant sucking sound" of 5.9 million American jobs moving to Mexico.

Together, union members and Perot followers constitute a potent political force. "Many individuals have been 'sucked in' by the emotional delivery of simplistic and dishonest arguments against NAFTA," says Rep. Robert T. Matsui, D-Calif., a leader among pro-NAFTA representatives.

"There is a possibility—though less than I thought a month ago—that NAFTA might not make it through Congress," concedes William T. Archey, the U.S. Chamber's senior vice president for policy and congressional affairs. "That would be a disaster for business and our entire country, not only in terms of what it would mean for relations with Central and South America but also how America views itself."

Expanding on the theme that NAFTA is a step toward asserting U.S. leadership in the post-Cold War era of global trade competition, Trade Representative Kantor says: "We must finally face the fact that our economy and the global economy have changed. Technology has revolutionized the world; our economy is no longer self-contained. We now must compete in a global economy where capital and technology are mobile, and these trends are there to stay. The question must not be whether we adapt to them, but how."

NAFTA, Kantor says, is one key answer to that rhetorical question. "When [President Clinton] studied NAFTA during the presidential campaign, he, too, approached it skeptically. There were powerful political reasons for opposing it," Kantor says.

"But when we studied it further, we found that NAFTA—strengthened by the supplemental agreements—would be in the economic interest of the U.S. It is not a favor for Mexico; it is a good deal for American workers, companies, and farmers. And it is an important piece of an economic strategy to build a high-wage, high-skill competitive economy." NB

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MARKETING

# Rich Niches

*Savvy small companies succeed by taking advantage of their flexibility, tailoring their goods and services for market segments.*

*By Roberta Maynard*

Not so long ago, niche marketing was heralded as a way to compete with mass-media clutter and to gain market share. Has it worked? For many companies, particularly small ones, the shift to narrow markets has been paying off handsomely.

For example, Atlantic Publication Group, Inc., (APG) spent four years offering broad-based, general-interest magazines on a variety of subjects before Marvin Jenkins, the president, began developing products for particular niches in 1989.

Now, this small company in Charleston, S.C., produces 28 publications for all kinds of organizations. It has grown from four to 11 employees, and revenues have tripled. Based on contracts already captured, APG will grow at least an additional 30 percent in 1994.

Every APG product is developed in response to a particular need. "First, we identify readers and what they are looking for," Jenkins says. "We look for groups that have a database of readers and need ways to communicate with them."

Jenkins makes arrangements to produce publications over several years for trade associations, economic development entities, municipalities, regulators, architects, and other groups. When a resort needed a services directory for its 40,000 guests, APG produced it.

The clients grant APG exclusive rights to publish the information and to sell advertising. The cost to the client varies with each situation.

Sometimes there is no cost at all. Each year South Carolina publishes a book of hunting and fishing regulations that contains advertising. The publication used to cost the state $40,000; now it pays nothing, thanks to the advertising APG sells.

"Niche marketing is really refinement of product," Jenkins says. "The trick is to be open-minded. Look at what you're doing—honestly—and whether it is working. Small companies have the flexibility to change direction."

Tapping particular niches can also help companies stand out from the crowd.

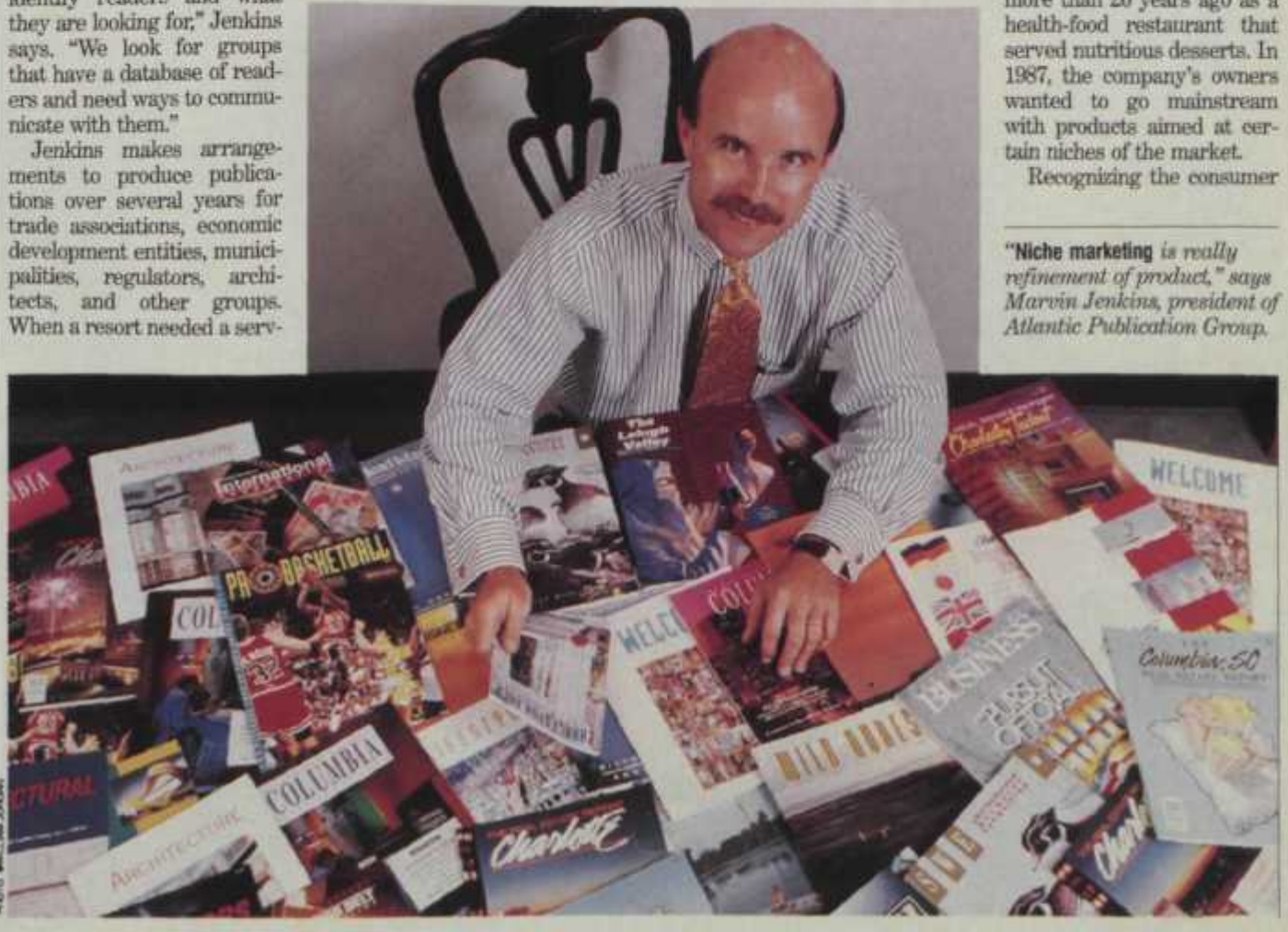
"A business must differentiate itself in ways that are important to the customer," says Philip Kotler, professor of international marketing at Northwestern University.

Concentrate on one or two areas in which you can excel or stand out, Kotler says, such as speed, reliability, service, design, relationships, features, personality, or technology. "That is the key to success."

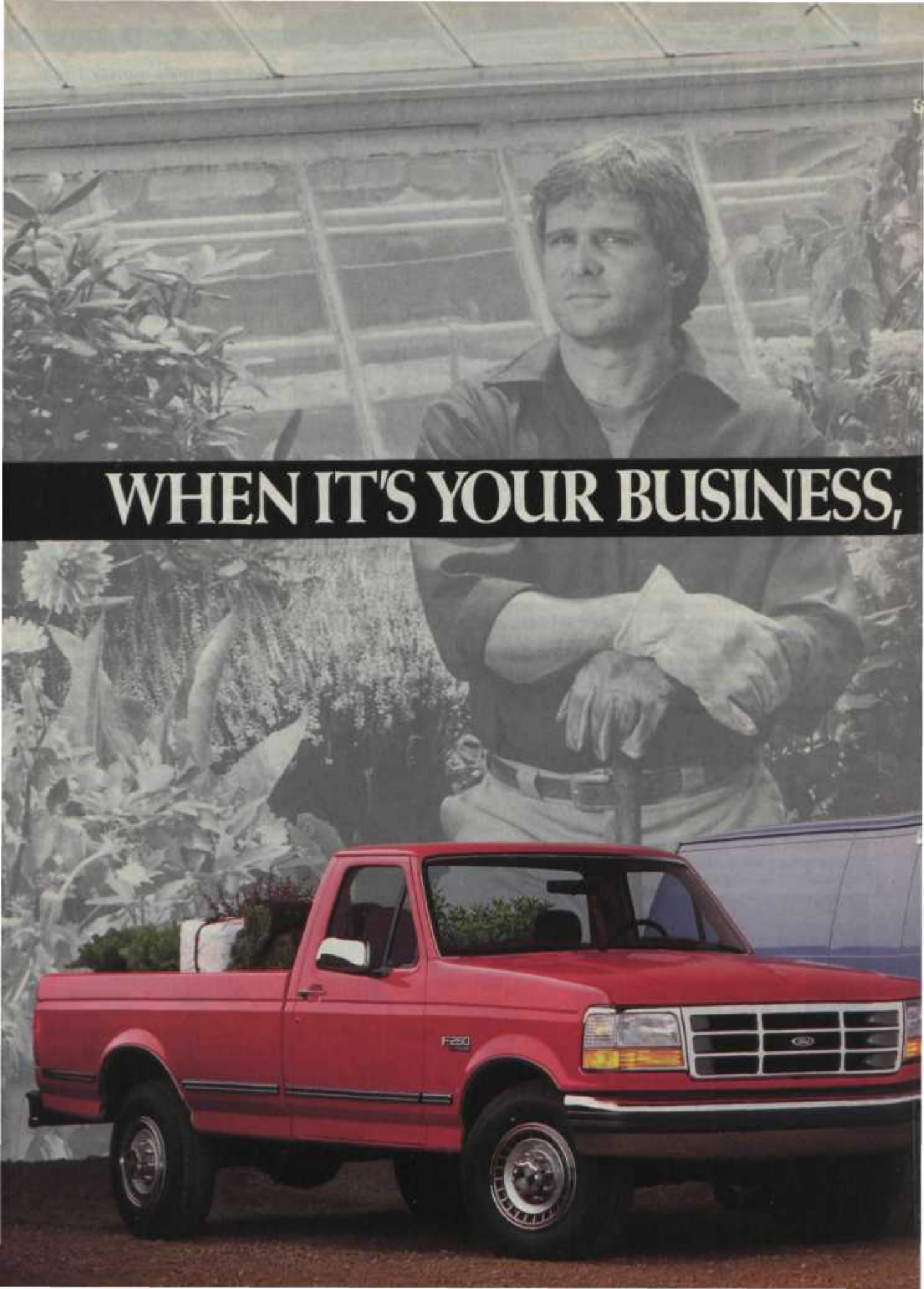
Bank One, of Columbus, Ohio, with 1,340 branches in 12 states, wanted to be a standout for exceptional service and convenience. In 1991, it opened a full-service branch in a Columbus supermarket, offering Saturday and Sunday hours as well as weekday evening hours. Since then, Bank One has opened three other grocery store branches, and two more are scheduled to open this fall.

A West Coast company achieved stunning success by focusing on product differentiation and positioning. Natural Nectar, in City of Industry, Calif., was launched more than 20 years ago as a health-food restaurant that served nutritious desserts. In 1987, the company's owners wanted to go mainstream with products aimed at certain niches of the market.

Recognizing the consumer




**"Niche marketing** *is really refinement of product," says Marvin Jenkins, president of Atlantic Publication Group.*


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interest in fiber, the company introduced FI-BAR, a low-fat, cholesterol-free, high-fiber granola snack bar. With limited resources, the company started in a few markets, concentrating on low-cost marketing tools. But the key proved to be studying the competition.

The company discovered that granola bars were aimed at the crowded children's market, which was dominated by the major food companies.

Natural Nectar opted to go for the less-competitive young-adult and senior markets. The competitors' bars contained peanuts and chocolate, they noticed.

So, to suit adult tastes, Natural Nectar developed the only bars in the category with almonds. Later, the company introduced the first product of its kind containing fruit and nuts.

"We can't compete head-on with the big companies," says Rick Persley, vice president of marketing and new-product development, "so we find a little niche that works. We're the smallest player, so we don't want a me-too product; we want to differentiate ourselves."

Natural Nectar has continued to do extensive marketplace homework and creative marketing, including an emphasis on product samplings designed to counter assumptions that healthful products aren't tasty. The company's strategy paid off: Revenues, which totaled $5 million when the firm's niche-marketing efforts began in 1987, reached $35 million last year.

"Small business is uniquely positioned for niche marketing," says Professor Kotler of Northwestern. "If a small business sits down and follows the principles of targeting, segmenting, and differentiating, it doesn't have to collapse to larger companies."

A business can make more money going for the niche rather than the volume, he says, and any new business or technology presents many opportunities for new niches. NB

*To order reprints of this article, see Page 78.*

# Tailoring Products For A Niche Of One

At the old corner drugstore, you didn't have to tell the soda jerk that you didn't like whipped cream atop your chocolate soda: He knew it. The newest trend in marketing is, in a sense, a return to those days of more personal service. It is made possible, ironically, by computer technology that allows companies to store detailed information about customers. It's not about lists of names, but lists of preferences.

One-to-one marketing, sometimes called mass customization, is giving each customer what he or she wants. The Ritz-Carlton hotels keep a computer record, available to all of its 28 hotels, of any guest preferences. If a guest asked for a foam pillow the last time he stayed at the McLean, Va., hotel, there will be one ready for him months or even years later when he checks into the Ritz in Atlanta.

To ensure this, each hotel has a guest coordinator who is responsible for collecting and processing such information.

Many small companies have developed customized service and products as well. A small-town florist in the Midwest customizes not the product but the means of furnishing it. Last year, a man ordered a bouquet of flowers from the florist for his mother's birthday. This year, the florist sent a note to the man three weeks before the mother's birthday, noting the kinds of flowers previously sent and the cost. The card asked whether he wanted to repeat the previous year's order and provided the store's phone number.

"A company has to set about to remember the customer's transaction," says Don Peppers, co-author of the new book *The One to One Future* (Currency/Doubleday) and president of marketing 1:1, a Weston, Conn., consulting firm. "In the case of the florist, it requires only a PC, note cards, common sense, and modest information-processing capability. If the company were smart, it would do the same thing on Mother's Day and Valentine's Day."

Peppers notes that "customization requires collaboration to get the necessary information from the customer." The effort required is worth it, he believes, because customization also builds customer loyalty. "Provided the price is competitive and the products are good, customers will be likely to return because they have made an investment of time and effort," he says.



PHOTO: ©ALAN DORow

**With a computer** *and a video camera, Meg Felton of Software Sportswear designs a custom swimsuit for Betsy Benenson.*

Take, for example, Software Sportswear, a Greenwich, Conn., company that makes custom swimsuits with the aid of a video camera and specially designed computer software.

Each new customer has an initial 45-minute consultation that includes picking out and trying on a variety of styles. A video camera hooked up to a computer monitor produces an image that can be manipulated to show possible modifications, such as longer torso length, lower cut in the leg, or added ribbons and bows. The customer can choose from 150 fabrics, which can be digitally displayed in the chosen style. The software allows up to three variations to be shown simultaneously for easy comparison. The result is an individually tailored pattern. A customized suit is then made in about a week. The suits at Software Sportswear cost $110 to $170 each, about 30 to 50 percent more than at a department store.

"Once you've sold someone a 'customerized' bikini," Peppers says, "why would she ever shop anywhere else? She has taken the time to give you the information, and you have her 'prescription' for a custom fit right in your own computer."

Meg Felton, president of the company, has been making these suits for 2½ years and has more than 1,000 clients. "We definitely want to keep up with it," says Felton, who is developing another line of customized products.

To some extent, one-to-one marketing is still over the horizon for many types of small businesses because they can't afford the equipment needed for some applications.

But the declines in prices of computer and other high-tech equipment make one-to-one marketing inevitable, according to Peppers.

Says Philip Kotler, professor of international marketing at Northwestern University: "We think there is a revolution in marketing today. It is called mass customization, and it is at least as valuable to small business as to large corporations."

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SPECIAL REPORT

# The Extras You Enjoy With A Luxury Car

*By Julie Candler*



**The Lincoln Mark VIII:** *Technology at the touch of a button.*

As an owner of a luxury car, you can expect a divinely smooth ride, distinctive styling, an elegant interior, and first-class quality and engineering plus excellent resale value. And you will get it.

You will also enjoy dozens of technological wonders that appear as standard equipment on top-of-the-line luxury models before becoming optional equipment later on less-expensive vehicles.

The definition of a sports car is expanding to include luxury sports coupes and sports sedans. In fact, the performance of some of today's luxury automobiles could have been expected only in racing cars just a few years ago.

Top racing vehicles have technology for continually monitoring engine characteristics such as temperatures, fluid pressures, and exact fuel reading. So do some luxury automobiles. At the touch of a button on the Lincoln Mark VIII, the driver can see digital readings on the instrument panel. The message center and programmable trip computer also provide average miles per gallon so far on the current trip and the number of miles to go before the fuel runs out.

General Motors' hot new Northstar V-8, used in Cadillacs, has computers that receive input from 29 sensors and constantly read and reset ignition timing and fuel mix. Saab's Trionic engine-management system has a 32-bit microprocessor that can perform 2 million calculations per second. The innovations result in a smoother, quieter, and more-efficient engine performance.

Electronic technology is making its mark on this year's luxury cars. Some manufacturers include suspensions that can be adjusted according to the driver's preference. Others are offering road-sensing suspension, which keeps the car level when traveling on rough roads and even when negotiating sharp corners, and speed-sensitive steering, requiring less effort to turn at low speeds and more at high speeds.

Convertibles have more-rigid engineering, designed to counteract the shake and rattle associated with older models. As a result, convertibles are selling at a brisk pace despite the $3,500 to $5,000 more you can expect to pay above the price of a comparable model with a conventional roof.

Among the safety, comfort, and convenience features included in the base price of most luxury cars are driver- and passenger-side air bags, anti-lock brakes, heated seats, remote-controlled locks, theft-deterrence systems, electronic four-speed automatic transmission, and power-operated seats. Many manufacturers are also adding traction control, a system that prevents wheels from spinning during start-up on ice or other slippery surfaces.

It's often cheaper to buy a high-line luxury car with all of the extras standard than to add the same equipment, option by option, to a less-expensive model.

All of these innovations require a large expenditure, of course, and the prices for 1994 are up, particularly for Japanese models because of the escalating value of the yen. Nonetheless, many luxury-car manufacturers offer attractive lease plans with monthly payments below those for a purchased car.

Most luxury-car makers provide an 800 telephone number for 24-hour roadside assistance anywhere in the U.S. Says William R. Bruce, vice president and general manager of Nissan's Infiniti division: "We'll even bring you a new key or come change your tire."

The 10 percent luxury tax on high-value autos remains in effect, though the purchase price at which the tax is assessed rose to $32,000 under the federal budget legislation signed by President Clinton. Dealers have been required to assess the tax on the amount that a car's price exceeded $30,000. For a car priced at $35,750 for example, the luxury tax has been $575 (10 percent of $5,750), but under the new law, the luxury tax on a car of that price is $375 (10 percent of $3,750, the amount over $32,000). The higher threshold takes effect Jan. 1, 1994, unless an earlier date is approved. The budget law provides for the $32,000 threshold to be indexed annually, in increments of $2,000, based on the inflation rate.

Our report begins with luxury cars that have base prices of $35,000 or higher, and it is followed by a "near luxury" category of vehicles that sell between $25,000 and $35,000.

Only brands that have made major changes or additions for the 1994 model year are included.

Because many manufacturers had not



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yet determined 1994 prices, prices listed are for 1993 models unless stated otherwise.

## *Over $35,000*

### Acura Legend

A new addition to Honda's lineup of Acura Legends is a sporty, top-of-the-line GS model of the four-door sedan. It adds 30 horsepower to the 3.2-liter V-6 engine that powers other Legends. The base price for the 1993 Legend LS sedan is $36,400.

All Acura Legend models feature a new, power-tilt, telescoping steering wheel adjustment. The steering wheel automatically tilts up and out of the way of a driver exiting the car and returns to the correct position when the driver re-enters the car.



*Audi Cabriolet*

### Audi

The Audi Cabriolet is a jaunty roadster from Germany. Its convertible top folds into a covered storage area at the push of a button.

The Cabriolet has a 172-horsepower V-6 and extras that include heated windshield-washer nozzles and heated door locks.

An optional L-shaped wind deflector covers the rear seats and forms a barrier behind the front seat, protecting the driver and passenger from the breeze.

The car's base price is $38,950.

Added to Audi's midsize luxury line is a front-wheel-drive 100 S station wagon.

### BMW

The four-door 740i, recently introduced with a 32-valve, 4.0-liter V-8, sells for $58,000.

In June, the German car maker introduced V-8 power to three 5-series vehicles. The new 1994 540i, priced at $47,000, is a five-passenger, four-door sedan with rear-wheel drive. It has engine power identical to that of the 740i. The 530i four-door sedan ($41,000) and the 530i Touring Wagon ($44,000) get 3.0-liter V-8s.

The soft top of the new 325i convertible ($38,800) disappears at the touch of a button. The car's safety features include an optional rollover protection system for occupants. When sensors signal a possible rollover, the system positions two roll bars above the rear headrests.

A wind deflector—a plastic-coated net on an aluminum frame behind the front passengers—when used with the windows raised, allows convertible occupants to enjoy more-efficient heating and extend the top-down season.



*Acura Legend Sedan LS*



*Cadillac Sedan de Ville*



*Infiniti Q45*

### Cadillac

The 4.6-liter, 270-horsepower, 32-valve Northstar V-8 makes the all-new De Ville Concours the most powerful front-wheel-drive, six-passenger sedan in the world, according to Cadillac.

The 270-horsepower Northstar system becomes standard for 1994 on the Seville Luxury Sedan (SLS) ($40,990) and on the two-door base Eldorado ($37,290). The more powerful 295-horsepower Northstar continues to power the Seville STS ($44,890) and the Eldorado Touring Coupe ($40,590).

A new 260-horsepower Gen IIV8 engine lends its muscle to the Fleetwood ($33,990) and the lengthy Fleetwood Brougham (no price available).

A new Anti-Lockout system on all 1994 front-wheel-drive models is a first for Cadillac. If a door is open, the power door locks won't work until you remove the key from the ignition switch.

The size of the passenger-side air bag in all Cadillacs is expanded to cushion a passenger in the middle of the front seat—an industry first, Cadillac says.



*Lincoln Mark VIII*

### Infiniti

As a result of customers' suggestions, Infiniti says, it has added 73 "enhancements" to its 1994 Q45, including an upgraded audio system. Changes range from a redesigned front grille and rear treatment to such luxuries as heated seats with softer leather. The base price is $47,500.

Infiniti's Q45a model has what the manufacturer calls a fully active suspension, a computer system designed to keep the body level, even during sharp turns and heavy braking. Included in the package are a compact-disc player and heated seats. The car's 1994 price is $54,100. A sporty 1994 Q45t with four-wheel steering sells for $50,600.



*Jaguar XJS*

### Jaguar

Two grand touring models, the XJS coupe and convertible, are fitted with a 6.0-liter version of Jaguar's V-12 engine for 1994. The XJS models are also available with a 4.0-liter, six-cylinder engine. The V-12 coupe's 1994 price is $69,950. The V-12 convertible, formerly a two-seater, becomes a 2+2 with two very small rear seats suitable for children or packages. Its 1994 price is $79,950.

### Lexus

The rear-wheel-drive Lexus GS300 is a four-door luxury sedan with sporty handling. Launched in March, it is priced between the ES300 and the top-of-the-line LS400. Its Italian-designed body

holds five passengers and is slightly shorter than the LS400. The same 3.0-liter, six-cylinder engine in the SC300 sport coupe has 220 horsepower. The base price is $37,500.

**Lincoln**

The Mark VIII arrived last December with a muscular sportiness (0 to 60 miles per hour in 7.5 seconds) as well as luxury. Its good performance comes from a 280-horsepower, 32-valve, V-8 engine.

The rear-wheel-drive coupe features auto-glide, a standard accessory that slides front seats fully forward when a front seat is folded down, making it easier for rear-seat passengers to enter.

A unique suspension system automatically adds or releases air from air springs to offset changes in the combined weight of passengers and luggage. At speeds



*Mercedes-Benz*

above 55 mph, the system lowers ride height nearly an inch, cutting wind noise and improving fuel economy by reducing drag. The price is $36,640.

**Mercedes-Benz**

A new model-naming system begins at Mercedes. Each vehicle family will be identified by a specific letter plus a number indicating its metric engine size. Midsize cars are designated E. The former 2.8-liter 300E 2.8, for example, becomes the E280.

Formerly called the 300 class, the midsize E-class cars have a redesigned hood and other changes for a rounder, lower look.

The E300 diesel, formerly the 300D 2.5 Turbo, gets a nonturbo, 3.0-liter diesel engine. With a 23-gallon fuel tank, the car will have a cruising range of nearly 800 miles. The E300 will arrive in January as a 1995 model.

Mercedes has cut fuel consumption so effectively in two of its biggest S-class cars that they are no longer subject to the tax on cars that do not meet federal fuel-economy standards, the so-called gas-guzzler tax. In addition, the tax is reduced on five other S-class models.

Prices for 1994 S-class cars begin at $70,600 for the S320. An integrated cellular-phone antenna is standard.

The SL sports cars claim the industry's only fully automatic soft top that can be



*Rolls-Royce*

raised or lowered by pressing a switch on the console.

An automatic roll bar on the 1994 SL convertible and E-class cabriolet pops up and quickly locks into place when sensors detect an impending rollover.

Prices for the top-of-the-line SL cars begin at $85,200 for the SL 320.



*Saab 9000*



*BMW 540i*

**Rolls-Royce**

With the 1994 models, every Rolls-Royce and Bentley model on sale in North America now has a factory-installed phone. Purchasers of both British makes will receive free scheduled maintenance for three years. Both of these fine "motor cars," as they are termed, make available an interior design service that lets customers create personalized interiors.

The redesigned 6.75-liter V-8 adds more power. Seats have been redesigned in response to requests for additional lumbar and side support.

The Silver Spur III ($189,900 for 1994), like other models, sports a new headlight design. It also gets illuminated picnic tables fitted to the rear compartment.

The turbocharged Bentleys can go from 0 to 60 mph in under seven seconds.

**Saab**

Saab extends its fuel-efficient Trionic engine management system, previously available on turbo models, to its entire 1994 9000 series. All 9000s are now equipped with heat-absorbent glass that improves comfort by reducing radiant solar heat by about 50 percent. The line starts at $28,725 and extends to $38,690 for the turbocharged Saab 9000 Aero.

## *$25,000 To $35,000*

**Alfa Romeo**

A more powerful engine and other refinements are added to the Alfa Romeo's 164 luxury sport sedan for 1994. The Italian luxury car is a four-door, five-passenger sedan with front-wheel drive. A new front grille and fog lamps are added to its design, by Pininfarina.

Four valves per cylinder perform in the



*Alfa-Romeo 164LS*

re-engineered V-6 engine. On the new 164LS model, the engine produces 210 horsepower and can go from 0 to 60 in less than eight seconds.

A four-speed automatic transmission includes an "ice" mode for optimizing traction on slippery surfaces.

The 164 Quadrifoglio (four-leaf clover in Italian) has larger-diameter intake and exhaust systems. Its engine has 230 horsepower. Special sporty suspension is complemented by aerodynamic rocker-panel moldings and a spoiler on the rear deck lid.

Alfa Romeo adds free scheduled maintenance for three years or 36,000 miles to its basic three-year warranty.

**Buick**

More muscle is added to most of Buick's lineup, including the four-door Park Avenue Ultra ($29,395). Twenty more horses



*Lexus GS300*

join the supercharged V-6 that is standard on the Ultra, giving it 225 horsepower.

The big, classy Roadmaster Limited four-door sedans ($24,920) and the eight-seat Roadmaster Estate Wagons ($23,800) get a new LT1 Corvette engine, a 5.7-liter V-8 that produces 260 horsepower, or 80 more than previously. The engine has been clocked at 0 to 60 in 8.5 seconds, yet preliminary fuel-economy numbers add a mile per gallon, giving 17 mpg in the city and 25 mpg on the highway.

**Cadillac**

A redesigned Sedan de Ville ($32,990) has a sleeker exterior and a roomier interior and trunk.

Cadillac's rear-wheel-drive limo, the four-door V-8 Fleetwood ($33,990), gets a



*Volvo GLT*

new standard 5.7-liter GenII V-8 engine, which delivers 260 horsepower.

**Chrysler**

The squared-off Chrysler Imperial is replaced by the fun-to-drive LHS, a stretched luxury version of the new LH front-wheel-drive, four-door sedans: the Chrysler Concorde, the Dodge Intrepid, and the Eagle Vision.

LHS is marketed as a youthful alternative to upscale imported sport-luxury sedans. Its power stems from a 214-horsepower, 24-valve, 3.5-liter V-6 engine. It is seven inches longer than other LH cars. It features luxury-car standards such as leather seats and power sunroof. Its estimated price for 1994 is $30,283.

The New Yorker model uses the same engine and platform, but it is more traditional, with a split bench seat and a gear shift mounted on the steering wheel. Its estimated price for 1994 is $25,386.

**Lexus**

There is a new engine under the hood of the 1994 ES300, the best-selling of the Lexus models. The new engine is a 24-valve, 3.0-liter V-6 that improves fuel economy while increasing horsepower to 188. The base price is $27,900.

**Mercedes-Benz**

All-new "entry level" luxury sedans of the C-class are being rolled out with fanfare



*Chrysler LHS*

in November as Mercedes drops its slightly smaller "Baby Benz" 190. The new five-passenger, four-door sedans are smaller than Mercedes' midsize cars but have more interior room and trunk space than the 190. The C-220, with a 2.2-liter, four-cylinder engine, and the C-280, with a 2.8-liter six-cylinder, are faster, more



*Pontiac Bonneville SSE*



*Buick Roadmaster*

powerful, and more fuel-efficient than their predecessors, Mercedes says. The price is expected to be about $30,000.

**Oldsmobile**

The front-wheel-drive Aurora is a new four-door performance sedan with fresh styling. It has a new 4.0-liter V-8 engine that revs up 250 horsepower and is said to be state-of-the-art in smooth, quiet operation.

The Aurora is not expected to arrive until May 1994, and it will be a 1995 model. The price will be between $30,000 and $35,000.

The Ninety Eight Touring Sedan has been dropped, but many of its features are now available in the Ninety Eight Regency Elite ($26,999). The supercharged 3.8-liter V-6, with horsepower increased to 225, is now an upgrade of the Regency Elite's standard 3.8-liter V-6.

The 1994 Regency ($24,999) and the Elite contain interior refinements such as a handsome new instrument panel and steering wheel, along with a redesigned front grille.

**Pontiac**

The Bonneville SSEi model has been dropped, but an SSEi supercharger package with 20 more horsepower becomes an option for the flagship six-passenger SSE sport sedan ($24,844). The supercharger package brings the V-6 engine to 225 horsepower. The package also includes an upshift "performance" option.

An optional Computer Command Ride changes ride and handling based on driver preference.

**Saab**

A new midsize Saab 900 with aircraft-inspired lines debuts for 1994. It is a five-door hatchback with a generous 24 cubic feet of luggage-carrying capacity.

The new model is slightly larger than its predecessor. Its transversely positioned engine makes room for comfortable seating for five. The standard engine is Saab's 2.3-liter, 16-valve, 150 horsepower four-cylinder. A 2.0-liter turbo version includes Trionic engine management and 185 horsepower.

Saab's 900SE premieres a V-6 option in a 2.5-liter, 24-valve engine that the manu-



*Oldsmobile Aurora*

facturer says is one of the world's most compact multivalve powerplants. It has 170 horsepower and includes a night-driving "Black Panel" that allows operators to switch off all instrument illumination except the speedometer.

The 900SE model is estimated at $27,000 for 1994, while the 900S is expected to be below $23,000.

**Volvo**

The 850 station wagon derives from the midsize 850 GLT sedan, the first front-wheel-drive Volvo for the North American market. The new wagon seats five, with a third seat in back for children.

For 1994, Volvo adds a turbocharged version of the five-cylinder, 2.4-liter engine in the 850GLT sedan and wagon.

The turbo increases horsepower from 168 to 222. The 850GLT sedan is priced at $25,285.

INSURANCE

# Carriers Rediscover Small Business

*With their sales to big companies declining, insurers are paying more attention to the butcher, the baker, and the candlestick maker.*

*By John S. DeMott*



PHOTO: T. MICHAEL KEZA

**At Dorothea's Bread,** *in Baltimore, owner Margaret Brennan discusses her bakery's insurance needs with USF&G's Chairman Norman Blake and Senior Vice President Ben Griffin; at right is baker Joseph Musselman.*

When he has the opportunity, Norman P. Blake Jr., chairman, president, and CEO of USF&G, chats with the company's small-business clients, like Margaret Brennan, owner of Dorothea's Bread, in Baltimore's Inner Harbor area, not far from the headquarters of the big property and casualty insurer. Says Blake: "You go there and you learn the business, and you talk to her and you feel like you're a partner with her. It's kind of fun."

USF&G isn't the only major property and casualty insurer courting the small-business market. Many carriers are now competing fiercely to sell policies to small firms. Aetna Life & Casualty Group, Continental Insurance Cos., and the St. Paul Cos., among others, are looking afresh at what many once regarded as a market too expensive to service and too meager to yield a decent profit.

By the calculation of USF&G, the small-business insurance market of companies with one to 19 employees is a $36 billion lode waiting to be mined. Although part of that is in workers' compensation insurance, which many insurers believe yields too little in profits to be worth their time, there is enough beyond workers' comp to warrant insurers' attention. About 70 percent of all U.S. businesses that buy insurance have annual premiums of $10,000 or less. And a large majority of those have yearly premiums of under $2,000.

The small-business market has had potential for years, but the big insurers are being forced to pay more attention to it now because of the slow-growth U.S. economy and the restructuring of giant corporations, resulting in the laying off of thousands of people.

Most big corporations' premiums, based on sales and number of employees, routinely run to seven figures. These larger companies, however, have been mired in no growth or slow growth for the past three years. So they've become less of a source of profit for insurers; the premium that was $1 million in 1990, for example, could be $800,000 now.

In addition, there is the sorry state of the insurance market itself. Says Bonnie Rankin, assistant vice president for commercial lines underwriting for Harleysville Insurance Cos., in Harleysville, Pa.: "This is a difficult market for both companies and agents." That's somewhat of an understatement. Battered by $23 billion in damage claims from hurricanes, a devastating northeaster, and other catastrophic losses, a record 57 insurance companies nationwide failed in 1992. Insurers' net income after taxes plummeted 58 percent, to $6 billion, according to the Insurance Services Office, in New York City.

And that was before the massive claims resulting from the record floods that swept through the Midwest this year, destroying public and private property and disrupting transportation and businesses for many weeks.

Meanwhile, premium income rose hardly at all during the past year. Year-to-year property and casualty premium growth struggled along at about 5 percent, the slowest pace in four decades.

As a result of the massive claims and faltering growth, insurers appear to be shifting toward insuring many smaller risks instead of a few large ones. Lancaster County, in Pennsylvania Dutch Country, is swarming with insurance agents because, unlike Philadelphia, for example, with its typical urban problems, claims are few and insurance company profits are high.

Says Kim Unger, who personally sells insurance that produces up to $500,000 in premiums annually for the Ira Mohler Agency, in Shillington, Pa.: "Everybody wants to write business up here. It's one of the most profitable areas you'll find."

Going after the small-business market isn't entirely new. The industry's BOP, or business owners' policy, was developed about 20 years ago as a sort of "homeowners' policy for business" that provided similarly efficient, low-cost package coverage for small retailers, shops, and factories.

Says John Pottridge, vice president of government and industry affairs of the National Association of Professional Insurance Agents, in Alexandria, Va.: "There are no new radical approaches. What worked 20 years ago is just being reinvigorated now. It seems like everyone has targeted small business [as a revenue source], from the federal government on down to insurance companies."

To make the small-business market profitable, insurance companies learned quickly to avoid high risks; few carriers will write policies for, say, asbestos-removal businesses or hazardous-waste

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companies. And they're moving swiftly to handle small-business accounts for far less money. Technology is being relied upon heavily. So is "template underwriting," wherein uniform standards are applied to large groups of businesses.

To small businesses, these moves by the carriers should mean faster and better service, with prompt attention to claims and wider latitude as to what can be insured.

For example, Pennsylvania's Harleysville, a regional carrier that writes $726.3 million annually in premiums, in the spring significantly enhanced its business owners' policy, in some cases at no increase in premium. Among other things, says Rankin, "we've expanded the eligibility rules, so more buildings, more kinds of risks, will be eligible."

Previously, a flower shop that lost its refrigeration, and hence its stock, because of a general power failure was not covered for the loss of flowers under its policy with Harleysville. Now, under Harleysville's new business owners' policy, it is.

Previously, a free-standing sign on the shop's property, say on a pole or rack, wasn't covered. Now it can be.

Where window glass on only the basement and ground floor was once coverable, now all glass on all levels is covered.

Veterinarians can now buy $500 worth of insurance to cover the accidental loss of a pet in their care; previously, they couldn't.

That kind of tailoring has helped Harleysville keep customers like Joe Culbertson, whose Reliable Telcom Inc., in Kirkland, Pa., installs and services telecommunications equipment. Now with 60 employees and sales of about $4 million, the company's property and casualty premium runs to $40,000 annually.

So far, Harleysville has hung on to Reliable Telcom's account. When Culbertson goes on his annual shopping trip for a better business-insurance deal, other insurers occasionally submit lower bids but with less coverage.

USF&G, which has aggressively been slashing costs and transforming itself since 1990 under CEO Blake's leadership, has opened four small-business market centers, in Denver, Indianapolis, Baltimore, and Atlanta, to handle the paperwork for small-business policies; a fifth is planned for Jackson, Miss.

By next year, according to plans, the offices will be bustling with computers, multiport fax modems, and sophisticated telephone systems to monitor traffic, all geared toward streamlining and shrinking the small-business insurance paper-handling process—"re-engineering," in 1990s parlance—and removing those tasks from the company's 34 regular offices.

USF&G's goal is to cut to six from 33 the number of times an application for business insurance is handled. Right now, says Blake, it takes 45 days to get a policy into the hands of a small-business owner, "and that's terrible." He wants to get it down to two weeks, maybe even less. "We just found we had too many steps in the process," says Ben Griffin, senior vice president of commercial lines.



PHOTO: VISAL D'AMARCO JR.—BLACK STAR

**Tailored coverage** *keeps Joe Culbertson of Reliable Telcom, in Kirkland, Pa., renewing with one carrier.*

Some progress has already been made. New insurance applications, including those for small companies, now go directly to people who process them rather than to a supervisor. And information requests are now done by computer rather than filled out on paper by hand.

With 4,000 independent agents, USF&G realized it had substantial contact with small business all along, "but it wasn't something we'd focused on in the past," Griffin says.

The company's goal, by 2000, is to expand to $1 billion from about $250 million now the amount of small-business insurance premiums it writes, achieving a 5 percent underwriting profit on them.

Historically, just the reverse was true. USF&G has lost money in the small-business market, paying out $1.20 for every $1 it took in. Says Griffin: "That's not a way to be a viable organization in the long run."

Aetna has also reorganized itself to target the small-business market in a big way. It has formed a unit called "select" commercial accounts to distinguish it from "standard" accounts (midsize businesses) and "national" accounts (big businesses). For retailers and manufacturers, Aetna's upper sales limit for its small-business coverage is $2 million annually. For all other small businesses, Aetna uses square feet as a gauge, the top limit being 35,000.

With about 1,000 Aetna employees focused on sales, underwriting, and direct management of small-business insurance, Aetna's goal is to increase its business in the category from about $900 million now to $1.5 billion.

The company is putting technology to the task. To serve its agents better, Aetna sends its 150 producer-underwriters to agents' offices with modem-equipped laptop computers, enabling them to write policies on the spot.

Like USF&G, Aetna will shy away from some high small-business risks, and it might actually wind up doing less small-business underwriting in some towns. But overall nationally, it intends to do more.

Other insurers are reaching out to the small-business market in other ways, sometimes succeeding by offering coverage that is hard to get. Reliance National, in New York City, is one of only a half-dozen U.S. carriers that write policies protecting employers in sexual-harassment liability cases; premiums begin at $10,000, with a deductible of $10,000.

Insurers aren't the only ones looking toward small and midsize business markets. So are big brokers such as Marsh & McLennan, Johnson & Higgins, and Alexander & Alexander.

In August, Acordia Inc. of Indianapolis, the eighth-largest insurance broker in the United States, with 1992 revenues of $207 million, bought the American Business Insurance subsidiary of Great American Insurance, increasing its number of sales offices to 89 in 23 states.

Acordia's ambitious mission is to become the largest distributor in the United States of insurance products to small- and middle-market companies.

The insurers and their brokers will work to tap the small-business market more effectively as long as it seems promising and produces profits. And their renewed attention could pay off not only for them but for the small firms they are courting. NB

*To order reprints of this article, see Page 78.*




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ECONOMIC DEVELOPMENT

# Old Firms Embark On New Ventures

*State and private agencies are helping established companies thrive in such fields as tourism, exports, and environmental management.*

*By Harry Bacas*

From their base in Lewiston, Idaho, Myrna and Wally Beamer send foreign tourists by jet boat up the Snake River through Hell's Canyon.

In Albany, Ga., Jimmy Lewis ships spraying machines to Puerto Rico for farm use, while his customers in Japan and Mexico use them for golf courses and road work.

Champion International Corp., based in Stamford, Conn., powers its Bucksport, Maine, paper mill with fuel made from discarded tires.

Each of these is a new venture by an old company, and each is encouraged and supported by state and local economic-development agencies.

In the past, state and community groups generally focused on offering incentives to bring in new companies. Today, however, the emphasis is more and more on helping existing companies grow and compete in an increasingly globalized economy. The hoped-for results are more jobs for the local economy and expansion of local and state tax bases. Among the local groups assisting existing companies with growth potential are utilities, which have long been active in promoting business.

"We have been in economic development for 60 years," says Timothy R. Comerford, development operations manager at New Jersey's Public Service Electric & Gas, based in Newark and serving most of the state. "Until two years ago, 99 percent of our activity was marketing, aimed at attracting new business. Then we realized that we really ought to be doing more to help our own businesses succeed."

State development agencies are doing the same thing. Miles Friedman, executive director of the National Association of State Development Agencies, in Washington, D.C., says reduced budgets have forced many states to reallocate their development resources.

"International competitiveness in a global economy is the No. 1 issue in our meetings," Friedman says. "The states want to see more exporting, and they are taking aggressive action to promote tourism, especially international tourism."

Development specialists are also starting to recognize that environmental management, once viewed by some as an obstacle to business, can be a powerful economic engine. The National Council for Urban Economic Development, in Washington, has concluded that "the recycling and environmental-technology industries hold exciting potential for job opportunities and business growth."

Kenneth E. Poole, research director of the development council, acknowledges that economic distress has motivated some of these new attitudes. "It has a lot to do with the growth pattern of a region," he says. "Economic development tends to be more innovative in areas where they are losing businesses, like New England and the far West, than in the South, where they are gaining businesses.

"The Sun Belt states are more market-



PHOTO: STEVE SILY

**Wally and Myrna Beamer** *operate excursions and deliver mail on Idaho's Snake River. The state's Division of Tourism has helped the couple expand their business. Says Myrna: "It is definitely not a Ma and Pa operation anymore."*

ing-oriented than those in the East or West; their chambers of commerce are still busy chasing companies down. In New England and California, however, they are more interested in enhancing the competitiveness of their existing industries."

But even in the South, according to Poole, marketing resources have declined. "So development agencies have to re-examine their programs," he says. "They aren't just asking, 'Are we getting enough bang for our buck?' but also, 'Are we shooting in the right direction?' "



PHOTO: GREGORY FOSTER

**Economic-development agencies** *in Georgia found leads for Jimmy Lewis of Albany, who ships spraying equipment.*

### Visitors From Abroad

"Wally and I moved from Oregon to Idaho and started this company 20 years ago," says Myrna Beamer, owner of Beamer's Landing. "We started it as a small, semiretirement opportunity. But it is definitely not a Ma and Pa operation anymore. We have 27 employees.

"We went from one boat to 11. The largest carry 44 passengers. They all have jets—a pump that pushes the water through and out the back. We operate excursions on the Snake River, do fishing in Salmon River and Clearwater River. We built a lodge and cabins in a remote place in the canyon that can sleep 50.

"This is a year-round business. We even deliver the mail up in Hell's Canyon. In winter, ranchers move with their cattle down from the heights to the river bank. We get through when it is impossible by land. The river is always open."

Carl Wilgus, administrator of Idaho's division of tourism, has helped the Beamers expand their business. He helped them negotiate legal questions and get necessary licenses from the U.S. Forest Service and the states of Washington, Oregon, and Idaho. He sends the couple business leads and promotes their tours at trade fairs. This year he took one of their employees with him to travel fairs in England and Germany.

South Dakota is working to nurture tourism, too. "It's a billion-dollar industry here," says Susan Edwards, state director of tourism. "One in eight South Dakotans works in tourism." To promote her state, Edwards recently took 18 travel agents from London on a three-day bus trip through the Dakota Badlands.

Edwards provides leads for companies like Affordable Adventures, operated by Doug and Carol Cameron of Rapid City. The Camerons guide visitors on tours of Mount Rushmore, the Black Hills, and Wounded Knee. They have been hosts to tourists from every country in South America. Last spring they took 44 young Parisians to see where "Dances With Wolves" was filmed. Carol, who speaks French, met the Parisians in Denver and arranged for their transportation and meals.

In New Jersey, Eugene Dilbeck, the state's director of travel and tourism, describes one way he brings in overseas business. At an "international touring exchange" in Berlin, he met a tour wholesaler who told him there were 25 million people in East Germany who had never been anyplace outside the old Communist bloc and who would like to see the United States, beginning with New York.

Could he help set up inexpensive trips? They would mostly be working people who lived in small towns, did not have a lot of money to spend, but got six weeks' vacation a year.

Dilbeck put the proposition to Prime Hospitality, which operates 26 hotels in New Jersey; one of its hotels, the Clifton Ramada, near the Meadowlands sports complex, is close to New York and has lower rates than hotels in Manhattan.

"We came up with a rate," says Jonathan Hirsch, manager of the Clifton Ramada. "First, we dealt with the guy in Germany by phones and faxes, then he came over here to talk. We arranged with a local company to do the ground transportation. We worked out a package. We

# North Carolina, Texas Gain The Most Corporate Sites

Florida, after leading the nation for four straight years in the number of new corporate facilities acquired, was outscored last year by North Carolina and Texas. Among metropolitan areas, Dallas stayed in first place.

Texas and North Carolina each attracted 405 new or expanded corporate facilities last year, followed by Ohio, 319; Florida, 252; and California, 221. Rounding out the top 10: Louisiana, 168; Wisconsin, 161; Indiana, 159; Georgia, 148; and Virginia, 131. The figures were compiled by the Industrial Development Research Council and Conway Data.

When only manufacturing facilities were considered, Texas led with 134 new plants. North Carolina was second with 129.

It was the fourth straight year that Dallas led the nation's metropolitan areas. The next most successful cities were Charlotte, N.C.; Orlando, Fla.; Atlanta; and Greensboro, N.C.

Nationwide, the survey counted 2,649 new manufacturing plants, the first annual increase since 1989, following declines in 1990 and 1991. Growth was strongest among manufacturers of food products, transportation equipment, chemicals, machinery, and rubber and plastic goods.

In a different measure of business activity—job growth—Florida has retained its lead and is expected to continue, according to DRI/McGraw Hill. The Lexington, Mass., consulting and forecasting firm says that Florida, which has been gaining employment and is expected to continue doing so, will be the fastest-growing state through the end of 1994, followed by Nevada and Utah.

Sara Johnson, a DRI economist, says a key generator of jobs in Florida has been construction. She says Florida and the other Southern Atlantic states and Texas are also attracting manufacturing and financial-services-industry investments because of their "low cost structure, influx of new residents, and proximity to the growing Latin American market."

California, where recent job growth has been the weakest in the country because of aerospace and defense cuts, is going to rebound during the 1990s, she says, "to No. 5 in growth among the states, on the strength of its high-tech industries and trade links with the Pacific Rim nations."

According to Johnson, New England, another troubled area, will also come back in the mid-1990s, thanks in large part to its "skilled work force and technology resources."

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picked up nearly 5,000 people last year from that one source."

### Encouraging Exporters

Cross Equipment, an Albany, Ga., agricultural equipment manufacturer, is more and more looking abroad for new markets. The company sells fertilizer sprayers, specialty turf sprayers for golf courses, and roadside sprayers for highway departments.

Jimmy Lewis bought the company in 1981 and sold it last fall. He is still the president of the company, which has 54 employees and annual sales of $6 million.

Lewis says he has to export because farm consolidations in the Southeast have reduced the market for his products: "Five years ago I sold 10 people 10 sprayers for 100 acres. Now I sell five people five sprayers for those same 100 acres. In that kind of market, you know you've got to kick it in the gazoodle to stay ahead of the reductions."

In getting started exporting, Lewis got assistance from Georgia's International Trade Division and its director, Kevin Langston; from the Cobb County Chamber of Commerce; and from an Atlanta business group that promotes international trade. "They gave us leads, then they mothered us along," Lewis says. "When we went to Tokyo, Georgia's man there went everywhere with us."

Rebecca Gombert, who runs Color Image, in Norcross, Ga., is equally grateful for services she has received from the state trade division. Her company, which has 60 employees, manufactures toner for laser printer cartridges.

Gombert says a woman from the Georgia trade office visited her company to learn about its products before representing the company on a trade tour of four South American countries. Gombert, who paid a small fee for the service, says she got responses from every country the tour visited.

In Milwaukee, John Moore's management consulting company, Anderson/Roethle, this year contracted to run an export-assistance program for Wisconsin Electric Power. His clients are small businesses, mostly metalworking companies, in southeast Wisconsin.

"We evaluate the market opportunities," Moore says. "We tell the company not to think about exporting to the world but to target a few countries with the earliest opportunities for them. Then we set up a strategy for entering the marketplace."




PHOTO: JOHNNY SUNDEY

**Carol and Doug Cameron** *of Rapid City, S.D., lead a group of tourists through Badlands National Park.*

Moore's clients have so far included a company that wanted to sell water pumps to Egypt but didn't know how to penetrate the market. Another company, which makes greaseproof paper, wanted to sell its product to manufacturers of stick-on labels in the Far East. A third company hoped to sell luxury men's clothing through retail stores in China.

Pennsylvania's Office of Small Business uses a similar consultant in its program of assistance to minority-owned small firms trying to export. "We focus on Third World and Caribbean countries, rather than Europe," says Emily White, the director. "First we review the business to see if it is suitable, then give technical assistance, do research, provide information, and make contacts."

### The Environmental Engine

The state of Maine has more than 25 million discarded tires. When burned in the open, they produce foul black smoke. More than a million additional tires are dumped in the state every year.

Champion International's multifuel boiler at its Bucksport paper mill is now reducing that waste backlog by more than 3 million tires a year. The plant buys rubber chips from two newly organized processing companies that cut up the tires and remove most of the steel wire. In a controlled mix with low-sulfur coal, oil, and mill sludge, the chips are fed into a boiler that burns at 1,600 degrees. The flue gas, scrubbed by a precipitator, emerges as a white exhaust that is well within air-quality limits.

The process was developed in conjunction with the Maine Department of Environmental Protection. The plant generates electricity, which is sold to the area's power company and repurchased as needed at a lower rate.

The environmental industry, which includes recycling plants, engineering firms, and equipment manufacturers, is a $120 billion domestic industry that is growing about 7 percent a year. Outside the United States, the industry generates $150 billion annually, which is expected to grow as much as 14 percent a year.

Donald L. Connors, president of the recently formed Environmental Business Council of the United States, a Boston-based national association of companies in the environmental industry, says the global marketplace for environmental goods and services "is estimated to grow to at least $400 billion by the year 2000."

Connors points out that "the Clinton-Gore administration, a number of state governments, and industry analysts have identified the environmental industry as a critical engine for U.S. economic growth."

In a meeting this past July with the council in Washington, D.C., EPA Administrator Carol M. Browner told the 130 business leaders and development specialists that the administration supports their objectives and would like nothing better than to see a "booming, job-creating, cost-cutting, world-leading envirotech industry."

Browner pledged to push for "regulatory innovation that fosters technological innovation." Export of environmental technology will continue to rely on innovation, she said, because in the world marketplace "you'd better have a leading-edge product, or you're likely to miss the sale."

John Driscoll, a founder of the council, says that although the potential for sales overseas is great, trying to find export financing is one of the biggest obstacles for small environmental businesses. One purpose of the council's meeting in Washington, he says, was to "put small business

## New Publication

A newly revised edition of *What 100 New Jobs Mean to a Community* is available from the U.S. Chamber of Commerce. The 53-page booklet uses regional analysis data in a table format to assess the impact of specific economic activities on different geographic areas.

The cost is $9.95, plus $2.95 for postage and handling. To charge your order by phone, call 1-800-638-6582 or, in Maryland, 1-800-352-1450, between 9:30 a.m. and 4:30 p.m. Eastern time. Ask for Publication No. 0325.



PHOTO: RICHARD HOWARD

**John Driscoll's** *Newton, Mass., company makes pollutant-measuring devices; he sees potential for exporting.*

and banks and environmental regulators together to find ways of cooperating."

Driscoll's own company, HNU Systems, in Newton, Mass., manufactures environmental measuring instruments. He has 225 employees and $25 million in annual sales, of which 55 percent comes from exports. His company's annual growth averaged 28 percent from 1986 to 1991. Driscoll's first product was a portable instrument employing a new technology, photo-ionization, to measure hydrocarbons in air. His first sale was to a plant in Kentucky that wanted the instrument to detect vinyl chloride leaks. Driscoll had learned from a friend in government that new federal regulations would restrict use of vinyl chloride, a carcinogen, and he moved to capitalize on the information.

His sales soared when the federal regulators lowered the vinyl chloride threshold from 500 parts per million to 50 parts to one part per million in just a year and a half. Conventional devices could not detect such minute traces, but Driscoll's new technology could. He sold 20,000 instruments at prices that started at $3,000 and, as features were added, climbed to almost $5,000.

Driscoll says that in Massachusetts, small businesses that want to export can get information and assistance from the state trade office. In addition, the Massachusetts Port Authority takes company representatives to trade shows and helps exporters with letters of credit. The state legislature recently made new money available to small-business exporters and to emerging industries.

In Alabama, the state environmental department tries to reduce the paperwork burden on business. It handles all of a company's permitting in one place. Marilyn Elliott, chief of permits and services, says she works through the state development office and through local industrial-development councils to help companies meet requirements.

"We meet with a business here or on site," she says. "We send a permitter, a technical person on water discharge or air pollution, to advise them whether it will be easy for them to get permits, and what they will have to do. If it is a small business, an ombudsman will walk them through our bureaucracy."

### Forces Of Change

Businesses and developers today confront an array of economic changes. The increasingly globalized marketplace encourages even small and medium-sized companies to export.

As entrepreneurs adapt their businesses to market changes, they often create jobs that require new skills. Who will fill them? The working population is increasingly made up of people displaced from traditional jobs, whose skills don't match openings. There are also people who lack basic education.

To cope with this, "economic developers need to understand that theirs is not a single discipline but an orchestration of the various influences that affect a local economy," the Council on Urban Economic Development said in a report, *New Forces in the Economy*. "As people who are trying to move several systems within a locality, they must work with educators, business executives, architects, planners, real-estate developers, bankers, social-service providers, community-development organizations, or other government officials."

Economic development specialists, according to the council's report, should resist pressure to implement obsolete programs based on offering traditional incentives. "Unless a community is willing to invest a very large amount, incentives typically play a very small role in what firms really want. Companies want top-notch labor, workers who can produce a quality product, and proximity to their markets."

Economic developers, the report says, "should reinvest their resources in activities that can have a long-range impact on the local and regional economy."

That means more-effective education and training must go hand in hand with efforts to nurture emerging industries and encourage existing companies as they compete globally. NB


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# Small-Business Computing

*Macs and PCs communicate; Braille keyboard enhancements; hard drives made simple.*

*By Albert G. Holzinger and Jon Pepper*

IMAGING

## When Computers Aren't Speaking

Software by Adobe Systems Inc. of Mountain View, Calif., could make a big difference in the way you circulate documents among employees and customers.

The **Acrobat** family of programs is an elegant solution to an age-old desktop-computing problem: With few exceptions, complex documents created in word-processing, desktop-publishing, presentation, or other programs can be shared only among people with similar computers equipped with identical operating systems, application software, and fonts. Lacking this compatibility, which is indeed uncommon, the only alternative until now was to photocopy the documents and circulate them in paper form.

Artists at CAPPS Studio, a Chicago-based firm that produces four-color advertisements for business clients, faced such a problem:

The artists work on high-end Macs loaded with state-of-the-art drawing and layout programs, a large library of typefaces, and other sophisticated design tools; clients mostly have PCs, and those who do have Macs don't generally have full suites of software and fonts.

In response to customers' demands for color proofs delivered quickly, CAPPS implemented Adobe Acrobat technology. CAPPS uses Acrobat to "print" electronic proofs of its ads in Acrobat's Portable Document Format (PDF). The studio sends those proofs via modem to customers, who, using one of the Acrobat family of programs, can view them almost exactly as they appeared on the artists' computer displays.

Customers request changes in electronic "Post-it notes" and return the proofs to CAPPS for implementation.

"Acceptance of the process has been very high," says Christopher Miller, CAPPS's director of Macintosh.

Acrobat has the following three products that allow exchange of documents among computers running DOS, Windows, Unix, or Apple's System 7:

**Reader** ($50 each with substantial quantity discounts available) enables end-users of information to search through, view, and print PDF documents.

**Exchange** ($195) performs Reader functions and allows users to annotate the PDF files of others or create new ones from most off-the-shelf programs.

**Distiller** ($695, or $2,495 for a network version) translates old files created in Adobe's popular PostScript language into PDF format.

We found that a user can install these products intuitively and that they perform remarkably well. On the downside, the Reader program is too expensive for most small businesses to buy in quantity and give away to customers, and all three demand lots of computing power for satisfactory performance. The products' prices, however, will almost surely drop over time.

To learn more about the program, call Adobe at 1-800-833-6687.




PHOTO: GRALF-FINN HESTOFT-SABA

**Using Acrobat Software** *by Adobe Systems Inc., Christopher Miller of CAPPS Studio "prints" electronic proofs of advertisements for inspection by customers.*

### An Imaging System That Could Save Trees

Another effort to reduce office paperwork comes from Pinnacle Micro, a company well-known for developing systems to store large quantities of computer data. Pinnacle, based in Irvine, Calif., has created the **Paperless 1** document-imaging system, in which documents scanned into a system can be retrieved as images, saving tons of paper, filing cabinets, and file clerks' time.

Imaging systems are often expensive; considering what is included, the Paperless 1 system is an inexpensive $6,995. Distributed by Ingram Micro, the system includes a scanner, optical storage drive, and software.

### HiJaak Pro Organizes Your Art Library

If you've bought any desktop-publishing or even word-processing programs over the years, chances are your hard disk is littered with "free" clip art as well as scanned-in images. It's also likely that these images are almost useless because they are uncataloged and probably in several incompatible formats.

An inexpensive but highly sophisticated program, **HiJaak Pro 2.0 for Windows**, by Inset Systems Inc., allows you to organize and browse through thumbnail

versions of the images. Moreover, HiJaak will enable you to convert virtually any image into the format required by any other software program.

The program is a snap for the user to install and navigate, it can be customized



**HiJaak Pro 2.0** *for Windows.*

easily, and it performs flawlessly on almost any Windows-capable PC.

Version 2.0 has a list price of $169 directly from Inset (call 1-800-374-6738), but you can find it at retail or mail-order outlets for about half that price. Included with the program are 500 free pieces of clip art. ■

HARDWARE

# A Keyboard For Vision-Impaired

A set of adhesive-backed key covers featuring large type and Braille characters provides a simple, inexpensive way to accommodate employees with impaired vision who must use computers or typewriters in their work. The set, made by Hooleon Corp., costs $21.95. Quantity discounts are available.

For a catalog of Hooleon's extensive line of custom keyboards and keyboard enhancements or to order its product for the visually impaired (No. 223-312-XXXX), call 1-800-937-1337.

## Microsoft Reshapes Its BallPoint Mouse

You may think that a pointing device is an afterthought in the world of portable computing, but don't tell Microsoft, which has spent a lot of money creating the second iteration of its BallPoint product, the **BallPoint Mouse Version 2.0.**

Is it worth it? If you work with Windows on your notebook PC, the answer is very likely yes. The new BallPoint has been reshaped to be easier to hold, has a padded rubber underside for more comfort and improved grip, and has larger buttons. In addition, the tracking mechanism has been redesigned to be more accurate and to give the trackball a better feel.

The product comes with Version 9.01 of Microsoft's control software, which includes a number of Windows and portable-specific software enhancements. The BallPoint is available in a PS/2-style version for $125.

## Color Your PC Green And Save Energy

Over the next few months you will be reading here and elsewhere about the new breed of "green" PCs and peripherals that save energy by shutting down after a time determined by the user. Embracing this technology makes good business sense: While many computer gurus advise turning off PCs only infrequently to maximize the machine's lifespan, the U.S. Environmental Protection Agency estimates the cost of running a PC, monitor, and laser printer night and day at $165 a year.

The **PC Ener-g Saver**, from PC Green Technologies, Inc., is the first device we've tested that turns an old PC into an energy miser. You plug your PC, monitor, printer, and keyboard into the Ener-g Saver, and plug its power cord into an electrical outlet. Then, install control-panel software that is activated by pressing the control, shift, and letter O keys simultaneously. This software allows you to select the period of inactivity that will trigger a shutdown.

PC Green says using its Ener-g Saver conscientiously could save up to $145 per computer in annual electrical costs. Not bad for a device that costs $89.95. Call 1-800-984-7336.

## Protect Your PCs From A Shocking Experience

Most of us give precious little thought to the electricity that powers our personal computers. That's a mistake.

Problems ranging from spikes and brownouts to total outages can result in data loss or, worse still, damage to PCs and peripherals. The **Power Tamer** surge suppressors from MediaMate provide inexpensive insurance against surges and spikes.

There are models with one, three, and six outlets. List prices range from $9.95 to $139.95. All of the products, available at retail and mail-order outlets, include a lifetime repair or replacement warranty. Five of the nine models provide up to $25,000 in insurance coverage for connected equipment. ■

FINANCES

# Write Your Own Checks

Not long ago, we wrote about technology that permits you to use a laser printer and special toner to create complete checks from blank stock. Magnetic Ink Character Recognition (MICR) machines at the bank read the little numbers printed at the bottom in an odd typeface and identify the checks as yours.

As we said, this technology is a money-saver because preprinted checks can be expensive and blank check stock is not. We also noted that the technology enhanced security because, obviously, blank stock cannot be stolen, forged, and cashed as preprinted checks can.



**Create-A-Check** *turns blank stock into checks.*

Create-A-Check Inc., a small company in Salt Lake City, offers an inexpensive toner-software package that maximizes security and ease of use. Create-A-Check Professional, a $499.95 (list price) package designed for the small-business owner, prints checks from most major accounting packages without additional steps. It couldn't be easier to use.

Even so, security is Create-A-Check's strong suit. For example, the software cannot be used except by those who know the correct password.

In addition, sensitive material is encrypted, and a unique Trace-A-Check function invisibly marks each check with the name of the user, the serial number of the software creating the check, and the time and date of printing.

The package is available at many retail outlets. To find a location near you and to determine if the Create-A-Check Professional program would be compatible with your laser printer and accounting software, call Create-A-Check at 1-800-621-5720. ■

UTILITIES

# A Technician On A Disk

Among PC technicians, Micro House has earned a reputation as an authority on hard drives with its *Encyclopedia of Hard Drives* and its *Hard Disk Technical Guide.* Those references tell you virtually everything imaginable about any hard drive and controller. If you expect to replace hard drives with any frequency or if you must maintain drives with unknown characteristics, consider investing in Micro House's drive-related software, **DrivePro.** This program makes installation of popular IDE-type hard drives fast and foolproof.

DrivePro tells you everything you need to know about drives already installed in your company's PCs. The program sports a utility that lets you copy crucial technical information about your disk to a backup floppy disk, which may enable you to resuscitate a failed drive. The *Encyclopedia of Hard Drives* has a list price of $169, the *Hard Disk Technical Guide* is $59.95, and DrivePro is $99. They're available at many major retailers or by calling 1-800-926-8299.

## A System For Doing Your Own Slides

The workhorse of business presentations is still the 35mm slide. Although there are many ways to get your spreadsheet, graphics, or presentation program slides onto film, if you do enough, you may want your own system. Until recently, that was too expensive for the cost to be justified. Now, Mirus Industries Corp. has come up with a film printer for under $5,000 with software for Windows. The package is compatible with Freelance Graphics and Microsoft PowerPoint, among others. For more information, call (408) 944-9770.

## Technological Help For Business Travelers

Official Airline Guides Inc. (OAG), in Oak Brook, Ill., has developed a number of high-tech ways of distributing airline schedules and ticket prices. One that seems particularly convenient and reasonably priced for the occasional business traveler is **FlightFax.**

You merely call the OAG system and specify the date, time, and city of departure, the desired destination, and your fax number. In a few minutes, OAG faxes you all flights and the cost and number of open seats on each. A toll-free number for more information is also provided. The cost is $29 for 10 faxes, with a 15 percent discount for 50 at a time. For information, call OAG at 1-800-323-400. ■

AT FIRST GLANCE

# Upgrades From Quicken

Intuit Inc., whose **Quicken** software dominates the personal-finance/home-office category in market share, is celebrating its 10th anniversary in a big way. The Menlo Park, Calif., company has released major upgrades of the DOS and Windows versions of Quicken and an adjunct program called **Quicken Companion.**




**Quicken** *Companion.*

We have seen detailed demonstrations of these programs and have run them briefly ourselves, and they are a bargain at the introductory prices available until the end of the year.

Among the many noteworthy new features of DOS and Windows Quicken is a "financial calendar" that looks much like a traditional paper month-at-a-glance calendar.

Entering data in this format (it's also recorded automatically in the check register) provides a convenient way to manage cash flow.

Other new features that impressed us at first glance were powerful new investment-tracking tools, financial-planning capabilities, and much-simplified and enhanced reporting features.

The new version of Companion makes it easy to compile and update a home or business inventory for insurance and tax purposes.

Companion also lets users download stock prices via modem and estimate next year's tax liabilities, which could change substantially from this year's as a result of the recent budget bill passed by Congress and signed by President Clinton.

Through Dec. 31, the DOS and Windows versions of Quicken will sell for $69.95 list, with a rebate of $5 per box for new users and a $10-per-box rebate for current users at retail and mail-order outlets.

Also through year-end, Companion will retail for $34.95 list, with a $5 user rebate.

Watch for other discounts for both products. NB


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I certify that the statements made by me above are correct and complete.

Leonard I. Rippa
Business Manager

# Family Business

*No spotlight on messy scandals; those "little" everyday ethical choices; an owner who is afraid to let go.*

OBSERVATIONS

## Why We Don't Dish The Dirt

*By Sharon Nelton*



PHOTO: T. MICHAEL KEZA

Every now and then, the major newspapers go after a big story on the misfortunes of some well-known family business. These past few months, for example, newspapers throughout the country have been detailing the skirmishes of the crumbling Haft family, which controls the Dart Group Corp.

As you may recall, the stories began in the spring with reports of a power struggle between Herbert Haft and his son Robert. Other family members took sides. Now the family is split asunder, the 45-year marriage of Gloria and Herbert Haft has fallen apart, and a bitter legal battle over the business, whose subsidiaries include the Trak auto-parts and Crown books chains, is under way. Not a pretty sight.

Not a pretty sight either were the stories detailing the fall of celebrated family-business founder Stew Leonard, whose Norwalk, Conn., grocery store is famous for its customer service. Leonard recently confessed to tax fraud and awaits sentencing.

When a well-known family business begins to disintegrate, people outside *Nation's Business* sometimes tell me with a knowing look that "that's a story you ought to cover." The implication is that I should dish the dirt on that family because, after all, everyone knows most family businesses are like that. I am sometimes accused of not facing the reality of family business because I don't chase after the dark side and rush it into print.

*Nation's Business* is a service magazine—we have long called it "the small-business adviser"—and we believe that our readers are more interested in solutions than in problems. Dwelling on the negative in individual family businesses is inconsistent with that role.

Combing the depths of the accusations that Haft family members have hurled at each other or detailing the government's charges against Stew Leonard do not, to my mind, fulfill the function of being an adviser to business. Those matters are for the general press to sort out.

Still another reason for not getting mired in scandal is that I don't believe most business-owning families are "like that." I believe that the majority do try to be ethical and that most family members do try to behave in caring ways toward one another. This does not mean that we ignore the fact that family businesses have problems. The following column deals with ethical lapses in such firms but does so to underscore the column's principal purpose—to offer a workable formula for *avoiding* such conduct.

This is our way of approaching such problems. We try to help families resolve them or, better yet, head off the kind of messes that the Hafts and Leonard now find themselves in.

We provide information and resources to help business-owning families build better businesses and create a more harmonious, functioning, and productive family life.

It's a more positive approach and one that I think serves our readers better than dealing only with the negatives. ■

PLANNING

## Will It Stand The Light Of Day?

*By John L. Ward and Craig E. Aronoff*

"I admit that I've taken some ethical shortcuts in the past," a family-business owner says. "But in the total scheme of things, it didn't seem wrong or to matter much. Though I'm still proud of the accomplishments in my life, one thing is for sure: If I knew then what I know now, I would have been far more proper and principled."

Most entrepreneurs we know can identify with this statement.

If you're a frequent reader of our column, you know that we cherish business owners as a special breed. In our experience, the vast majority are committed family people. We know how generously most care about their employees' welfare and the well-being of their communities. We see firsthand the tremendous value they create: jobs, civic leadership, and personal examples of decency, hard work, and compassion.

But we also know that no one is perfect. The complex life experience of entrepreneurs brings forth many temptations, many rationalizations, and, ultimately, many unanticipated consequences. Discussing ethics in this context isn't easy, but several business-owning families with whom we've contemplated the subject have encouraged us to share our reflections with other business owners.

When we speak of ethics, we're not discussing major crimes. We're reflecting on "little things" that confront us every day. Some examples:

■ The owner of a retail appliance store took home, without payment, whatever he needed: television sets, fans, toasters, and the like. Later, his four children joined the business, and they all assumed the same privilege. Now they're fighting over who abuses the privilege the most.

■ A business owner routinely put his personal mail through the company's mail



PHOTO: T. MICHAEL KEZA

*John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.*

room. Over time, 250 employees were doing the same thing, adding significantly to the company's postage bill.

■ A manufacturer we know found it useful to "tip," in meaningful cash amounts, vendors' truck drivers so they would help unload the trucks at night and thus he could avoid paying some of his employees for significant overtime. To do so, he took cash from his retail "seconds" store before it hit the accounting records. His daughter-in-law, the controller, was analyzing the official records of that particular store and suggested that it be closed. After all, it was losing more than $1,000 per month.

Many entrepreneurs have to struggle hard for survival in the early days of their businesses. Under these circumstances, business owners sometimes begin to conclude that the ends justify the means. Just to stay afloat, they often cut corners, such as stretching out payables.

The struggling entrepreneur himself or herself may be a victim of deceit or dirty competitive tricks and decide to fight fire with fire, taking the attitude of "don't get mad, get even."

At the same time, business owners often feel underappreciated by society. They work harder than most people they know. They take great risks. They create jobs and fulfill customers' needs. They can accept feeling abused by customers or beaten by the competition as part of doing business. But then they find themselves unfairly hassled by bureaucrats, massively taxed, and dealt with condescendingly by more established society. Without a sense of being treated fairly, a business owner may be less concerned about fairness toward others.

Struggling entrepreneurs often put in so many hours so intensely that they don't have time to keep meticulous records, fight legal battles, or explain their intentions.

Eventually, some entrepreneurs realize how much they can abuse what they may see as an unjust, incompetent "system." It becomes a game. And particularly as it relates to keeping matters straight between what's personal and what's business, who really cares? It's really all "one pocket" anyhow.

In many cases, they believe that the value of their time and energy more than offsets many of the petty shortcuts they take. They've been so benevolent and loyal to their people that they question the appreciation and loyalty of anyone who looks askance at their conduct.

But ultimately it does matter. At some point, it is no longer "one pocket." Because of the example set by parents who take ethical shortcuts, children who enter the business fail to understand the responsibilities of ownership. Those who do not work in the business may feel a birthright to perks that don't seem associated with performance. Nonfamily managers may come into positions where opening the financial books is essential, but the secrecy required by accumulated tiny abuses may cripple managerial effectiveness. Secrecy at home drives wedges between spouses, siblings, and generations. Fear, secrecy, and conflict cost too much pain and too many sleepless nights.



ILLUSTRATION: DAVID CHEN

We find several other long-term consequences attributable to habits of ethical shortcuts. Some entrepreneurs become paranoid about their employees' ethics, fearing everyone is stealing from them. Some hire and keep employees of modest competence so they can expect loyalty and nonjudgmental attitudes. Some feel guilty and compensate for that feeling by becoming overgenerous to their people. The offspring of some gain a disdain for capitalism; the offspring of others become financially irresponsible. Trust, the greatest competitive advantage of family business, is destroyed. For the better, others—possibly out of guilt—try to pay back society through philanthropy.

We're not attempting to be moralists here. We've faced similar temptations. But we frequently find ourselves working with business-owning family members who feel trapped by precedents of past behavior. They know they must change. They hope it is not too late.

Only by honestly looking at precedents and patterns can families find a different and better future. Otherwise, crises that threaten business and family survival arise again at a stage in life when peace and rest should be the reward of long effort.

We suggest that business owners, as they go forward, be guided by asking themselves, other family members, and employees three straightforward questions: Will my actions and decisions serve as good examples for others? Will they harm anyone? How will I feel if they see the light of day? ■

## MARK YOUR CALENDAR

### Nov. 11, Ann Arbor, Mich.

"Family Business Succession Planning: The Human Aspects" is a seminar for family-business owners and managers. Contact The Newport Group, 455 E. Eisenhower Parkway, Suite 210, Ann Arbor, Mich. 48108; (313) 769-8000.

### Nov. 17-18, Cleveland

"Professionalizing the Human Resources Function in Family Firms" covers compensation, workers' comp, and evaluations. Contact Don Jonovic or Tom Monroy at Baldwin-Wallace College, (216) 826-5927.

### Nov. 17-19, Orlando, Fla.

"Managing Succession Without Conflict," a seminar sponsored by the Arthur Andersen Center for Family Business, features family-business consultant Léon A. Danco. Call Ross W. Nager at (713) 237-2770.

### Nov. 20, Largo, Md.

"Planning for the Continuity of Business" is a seminar addressing such topics as business valuations, tax and financial considerations, and buy-sell agreements. The seminar is to be repeated Dec. 1 in Rockville, Md. Contact Dale Snyder Associates, 672 Old Mill Road, Suite 316, Millersville, Md. 21108; (410) 553-6101 or 1-800-231-6101.

### Dec. 3-5, Pinehurst, N.C.

"The Complexities of a Family-Owned Business" is the theme of a conference featuring family-business consultants Tom Davidow and Richard Narva. Contact John Powell, Executive Director, North Carolina Family Business Forum, P.O. Box 2888, Burlington, N.C. 27216; (919) 226-1380.

### How To Get Listed

*This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.*

CASE STUDY

# Strategic Planning Gone Awry

Ian has single-handedly led the growth of his wholesale bakery to $15 million in annual sales, and he knows revenues can be tripled. His reputation for quality has created more demand for his products than he can handle. He is excited about the company's future, but, at 60, he knows he can no longer lead the company forward by himself.

He recently recruited three highly respected people who have experience in the industry: a general manager, an operations manager, and a human-resources manager. Ian believed that these new executives, together with his daughter, who is sales manager, and his wife, who is chief financial officer, made for a good start at building a more professional organization.

He also hired a family-business consultant, Mark Johnson, to assist with a strategic plan to help his new team focus on realizing his dreams. But now Ian is in a quandary. He and his managers have met with the consultant three times, and Ian has begun to feel that his management team is attacking him personally, accusing him of micromanaging and of not being able to delegate.



ILLUSTRATION: DAVID CHEN

He in turn feels that they don't understand his standards and expectations—the ones on which he has established his reputation. Dissension has increased with each strategic-planning session.

"Why can't they carry out my wishes, like good foot soldiers?" Ian asked the consultant in private, after the last meeting. "But you have hired bright, enthusiastic professionals," Johnson countered. "They don't want to just take orders."

Ian isn't satisfied. Johnson talks about creating a shared vision, while Ian only wants to talk about specific tasks to be done, with no arguments. He doesn't want to compromise his own vision.

Ian wants to stop the process—it just isn't going the way he expected. Even his wife and daughter have told him he has to let go if the management team is going to accomplish anything.

Ian has been on the verge of firing Johnson but fears doing so will further alienate his key people.

This is not what Ian bargained for when he signed up for strategic planning. What should he do?

## Caught In Two Traps

All parties to this case are caught in two traps and need to find their way out as soon as possible.

The "I can't let go" trap is the more important one. Ian's intellect is leading him in the right direction, but his emotions have got him into a quandary. His managers and family are right. It is senseless to hire good people and then tie their hands.


PHOTO: BRET LANZA

*Ernest A. Doud Jr., managing partner, Doud/Hausner and Associates, a Sherman Oaks, Calif., consulting firm specializing in family businesses.*

There should have been an explicit, upfront agreement about management roles and limits of authority. The new managers followed Ian into this trap by not defining these before signing on. Agreement is essential before the business and the strategic plan can move forward, but it won't be achieved unless Ian cooperates.

Ian and his managers are also in the "Whose plan is this?" trap. Focusing the entire top management team on the future of the business can yield powerful results—but not under the circumstances that exist at Ian's company. Ian is the owner and the chief executive officer, so his vision counts most. But he must either give managers *some* voice in the process or abandon the charade.

Ideally, managers participate in developing all elements of the strategic plan. At the other extreme, Ian could write the plan himself and impose it on the executives, but that is rarely effective.

The most promising approach to salvaging the planning process (and one often used in family business) is a compromise. The owner spells out his vision for the company. That becomes a given; then the management team participates in building the rest of the strategic plan around it.

## Ian Has A Lot To Learn

What expectations did Ian's new team members have when they were hired? Did Ian lead them to believe that they would be able to explore their creativity in their jobs? If so, Ian has erred and should change his views or renegotiate his new managers' expectations.

Further, if his wife and daughter cannot take micromanaging from Ian, and if Ian wants to avoid conflict, he must change his attitude and let go. Otherwise, he must prepare himself for rejection by his family. If Ian wants to ensure family harmony, he should be willing to give up a little control and take the risk of a little reduced quality. Family issues aside, Ian needs to understand that micromanaging has drawbacks as well as benefits. One benefit is that his team will meet some very minimum standards. While team members may fail less often, however, they will neither exceed those minimum standards nor do consistently excellent work.


PHOTO: DIONEL TON

*James I. Herbert, president of James I. Herbert and Associates, a management consulting firm in Wolcott, Conn.*

If Ian does not believe that his key people can perform well on their own, without micromanaging, he should not have hired them. If he believes in their underlying competence, he should let them succeed on their own and allow them to learn from their own mistakes.

Ian should continue his team's involvement with strategic planning. Where there is disagreement, open and thorough discussion should occur so that the best ideas rise to the surface.

Ian needs to realize that he does not have a monopoly on being right. If he cannot accept the necessity of letting go, then he should not expand his operations but continue as a one-man show.

**This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Mike Cohn, president of The Cohn Financial Group, Inc., in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute.** **Copyright © by the Family Firm Institute, Brookline, Mass.**

MANAGING

# Creator Of Habits

*Author Stephen R. Covey says entrepreneurs must focus on more than business if their businesses are to succeed.*

*By Michael Barrier*

Stephen R. Covey is thinking about why so many small businesses stumble: "In my opinion, the No. 1 mistake that most entrepreneurs make is that they never know how to develop a complementary team. They're always kind of cloning themselves," that is, trying to turn their employees into duplicates of themselves. "In the early stages, it works," he says. "But as you reach a certain point, you have to empower other people and build on their strengths to make your own weaknesses irrelevant."

Covey speaks from personal experience as the head of the Covey Leadership Center, a consulting and training firm that has grown rapidly in the wake of the success of his book *The Seven Habits of Highly Effective People* (Simon & Schuster/Fireside): "I brought in a management team with complementary strengths so that I could focus on my main strength, which has to do with idea creation and teaching and books, rather than running a business."

Covey says he was forced to take that step when the lack of "good financial controls" began to endanger the business. "We learned," he says, "that unless there's a margin, there'll be no mission."

Covey's *Seven Habits*, published four years ago and with 3.5 million copies in print, is not specifically a business book; its subtitle is "Restoring the Character Ethic," and the "habits" Covey writes of are in fact a reformulation, in contemporary language, of ethical standards that have always been widely accepted.

Covey draws many of his anecdotes and examples from large organizations. Likewise, most of the executives who pay $3,500 to attend the Covey Leadership Center's week-long training sessions in Sundance, Utah, come from large or midsize businesses.

Nonetheless, *Seven Habits* and its sequel, *Principle-Centered Leadership* (Simon & Schuster/Fireside) speak powerfully to many small-business people. As Covey suggests when he talks about the need to build a complementary team, entrepreneurs cannot escape the need to change and grow.

Covey is an enthusiastic advocate of Total Quality Management, for instance, but, typically, he approaches it in terms not just of management techniques but of personal behavior. There is widespread agreement that a successful quality program requires commitment at the top of a business, but Covey says TQM also requires the opposite: "The people at the bottom have to stop waiting for the people at the top to make it happen. . . . In a sense, everyone has to take an inside-out approach."

> **You can't empower people unless trust is really deep. And you can't get deep trust unless you have deep trustworthiness.**
> —Stephen R. Covey



Covey, 60, grew up in Salt Lake City. His family has owned hotels, motels, restaurants, and other property in the West for several generations. He studied at Harvard Business School and then joined Brigham Young University, in Provo, Utah, as a professor of organizational behavior and business management, eventually earning his doctorate there.

He left the university about 10 years ago and formed Stephen R. Covey & Associates, its staff consisting of himself and a secretary. The Covey Leadership Center now employs about 400 (an additional 200 people work with affiliates and licensees around the world) and has annual revenue of $50 million.

For all his emphasis on personal change as the basis for organizational change, Covey doesn't shrink from using tested management techniques. In true TQM fashion, the Leadership Center actively seeks out feedback from all of its "stakeholders," who, as Covey defines the term, include not just the Leadership Center's owners but also its employees, customers, and suppliers, among others. Traditional top-down, hierarchical management "doesn't mesh with the realities of today's marketplace," Covey says.

Fostering this interdependence takes more than good intentions; it requires creating an atmosphere of trust. "If you learn to build a high-trust relationship and to empower other people, you think you're losing control," Covey says. "But it really increases your control. It's a control not through you, but through the common principles and vision you've agreed upon."

When Covey speaks of "common principles and vision," he is talking about a mission statement, something he thinks that no business is small enough to do without. The very act of drawing up a mission statement, he suggests, can contribute mightily to the trust and interdependence that a small business needs as it grows.

"A lot of people confuse a mission statement with goals," he says. But they can achieve their goals and discover that "they're not really where they wanted to be. The key is the mission statement, the formation of a philosophy of what life is about, and the principles on which you operate. *Then* set goals." NB

## Covey By Satellite

Stephen R. Covey will conduct a satellite seminar Nov. 2 as part of the fall series sponsored by the Quality Learning Services Division of the U.S. Chamber of Commerce.

The Covey seminar, "Principle-Centered Leadership," will be seen from 12:45 p.m. to 3 p.m. EST at more than 400 sites in most states and in Canada, under the auspices of local chambers, individual businesses, community colleges, and various federal and state government agencies.

The 10-part fall series, which began in September, will continue on Nov. 10 and Dec. 1, 8, and 16. For information about the seminars, including sites and how to be host to one or more of them, call the Quality Learning Services Division at 1-800-835-4730 or (202) 463-5940.

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NB1196

# To Your Health

*Managing well includes managing your own health; here is advice to help you do that better.*

*By Marcia Mazur*

## A Treatment Not Talked About

In 1985, when Marvin Bush could have been enjoying life as the vice president's son, he was in nearly constant stomach pain, losing 60 pounds unintentionally and fighting the urge to go to the bathroom 10 to 20 times a day.

Bush was diagnosed with ulcerative colitis, a form of inflammatory bowel disease, and surgeons removed the damaged part of his intestine. They then created an ostomy, a surgical opening in the body.

While ostomies can be created in different areas of the body, by far the most common are those—such as Bush's—that are made in the abdominal wall to enable waste to pass through. Bush, a spokesman for the Crohn's & Colitis Foundation of America, says of his ostomy: "It has given me a pain-free existence."

He has a lot of company, although many people with ostomies—especially those who are public figures—do not disclose the fact. About 1 million people in the United States and Canada have abdominal ostomies, and an estimated 85,000 to 100,000 additional such surgeries are performed each year, according to the United Ostomy Association.

As Dr. Jason Bodzin, director of the Inflammatory Bowel Disease Institute of Sinai Hospital, in Detroit, notes, "If you work with 200 people, it is likely that at least one of them has some kind of ostomy."

Abdominal ostomies fall into three categories: colostomies account for 65 percent; ileostomies, 20 percent; and urostomies, 15 percent. These ostomies carry waste from the large intestine, small intestine, and kidneys and ureters, respectively. Ostomies may be located almost anywhere on the abdomen. They are usually placed below the belt line and are undetectable under most clothing styles.

Although ostomy surgery is performed mainly on adults, thousands of infants and children receive abdominal ostomies every year for birth defects, inflammatory bowel disease, or Hirschsprung's disease, a digestive ailment affecting about one in 5,000 live births.

*Marcia Mazur is a Washington-based writer who specializes in health-care topics.*



PHOTO: [illegible]

**An ostomy** *enables Marvin Bush to maintain an active, pain-free lifestyle.*

Bodzin explains that an ostomy is an important treatment for cancer of the rectum or bladder. "An ostomy can be lifesaving and sometimes sanity-saving," he says. He recalls patients who "felt like knives were digging into them every time they went to the bathroom," until they had an ostomy.

"Ostomy surgery is curative for ulcerative colitis since [the disease] affects only the large intestine and the rectum," says Barbara Boyle, national executive director of the Crohn's & Colitis Foundation. "About 15 to 20 percent of people with ulcerative colitis require this operation. They fall into two groups: those whose illness cannot be controlled by medication, and a small number who have suffered from ulcerative colitis for many years and develop severe dysplasia, a change in cells that may predict cancer."

Boyle adds, however, that ostomy surgery is not curative for Crohn's disease, a form of inflammatory bowel disease that can also strike the small intestine and other parts of the digestive tract.

Ostomy surgery may help when there is damage to digestive organs as a result of gunshots, stabbings, or car wrecks, or when prostate cancer has extended into the bladder. About 60 percent of abdominal ostomies are temporary, performed to relieve pressure on weakened organs or to allow diseased tissue to heal.

After ostomy surgery, the patient generally wears a pouch over the opening to collect body waste. "The change in ostomy care today is remarkable," says Paula Erwin-Toth, manager of enterostomal therapy (ostomy care) nursing at the Cleveland Clinic Foundation, in Ohio. Erwin-Toth was born with a bladder defect and has had an ostomy since she was 10 years old. "Ostomy pouches are made of lightweight plastic and are odor-proof," she says. "You can wear them in the shower, swimming, skiing, and even during sex."

Cynthia Sylvia, the enterostomal therapy nurse at Georgetown University Hospital, in Washington, D.C., adds: "Ostomies not only save lives, they bring an improved quality of life. And they are easier to care for than ever. . . . Changing a pouch is simple and may be accomplished in just a few minutes."

In limited cases, physicians have even been able to create an internal pouch, but these techniques are still evolving.

Most people with ostomies return to their old routines, make only minimal changes in their diets, and enjoy a normal life span. Women who have ostomies as a result of inflammatory bowel disease are almost always able to conceive and bear children.

While ostomies "are still not cocktail party conversation," as Marvin Bush says, they no longer bear the social stigma they once did. More and more people are realizing that they bring invaluable relief and extended life to many thousands every year.

To find out more about ostomies, including local support groups, call the United Ostomy Association at 1-800-826-0826. Or call the American Cancer Society at 1-800-227-2345, the Crohn's & Colitis Foundation at 1-800-343-3637, or the American Pseudo-obstruction and Hirschsprung's Disease Society at (617) 395-4255. NB

# Direct Line

*Experts answer our readers' questions about starting and running their businesses.*

*By Meg Whittemore*

MANAGING

## Know The SCORE

I am the sole proprietor of a small retail clothing store. How can I get some outside opinions on running my business?
*P.G., Lewes, Del.*

The Service Corps of Retired Executives (SCORE), an association affiliated with the U.S. Small Business Administration (SBA), provides free counseling for businesses such as yours. SCORE is staffed by volunteer executives who have extensive business experience. Most are retired. They offer confidential and impartial advice about specific challenges facing a particular business.



ILLUSTRATIONS: MARTHA VAUGHAN

Help is offered in three areas: starting or expanding a business, avoiding crises, and solving problems. Be specific about the areas in which you need help, and a SCORE office will match you with a volunteer. To locate the SCORE office nearest you, contact the SBA office in Wilmington, Del., at (302) 573-6553, or check under U.S. Small Business Administration in the blue pages of your telephone book.

## Growing Pains

My small business is growing, but I'm not sure if my management skills are up to the task. Can you suggest reading materials that could be helpful for me?
*D.S., Dayton, Ohio*

"Manage your organization for what you want it to become, not for what it is, and *never* for what it was," says Roy Cammarano, president of Entrepreneurial Development Group, Inc., a business consulting firm in Dana Point, Calif. In his book *Entrepreneurial Transitions* (Griffin Publishing), Cammarano outlines the phases of entrepreneurial growth and the shifts in management style that accompany each stage.

Topics include recognizing entrepreneurial behaviors, learning the difference between leadership and management, developing strategies aimed at accommodating growth, and understanding the value of effective communication within a business.

The paperback book is available for $16.95 plus $2 shipping (major credit cards accepted) from Entrepreneurial Products, Inc., 34545 Scenic Drive, Dana Point, Calif. 92629. Orders can be faxed to (714) 496-5862. ■

BANKING

## Tips For Lenders

I work for a bank, and I handle small-business loan applications, particularly loans backed by the U.S. Small Business Administration (SBA). The paperwork is overwhelming. Is there a guidebook that might help me?
*T.W., Canda, N.D.*

*SBA Lending Made Easy*, a comprehensive publication from the American Bankers Association, describes the SBA's 16 loan programs and covers topics such as loan prequalification, the loan process, and required documentation.

A section on loan forms and how to screen applicants is included, along with the procedures for reporting to the SBA. The book also tells how to handle delinquencies, loan defaults, and liquidation.

The book costs $49 for American Bankers Association members, or $69 for nonmembers, plus shipping and handling. Call 1-800-338-0626 to order; major credit cards are accepted. ■

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102.

Writers will be identified by initials and city. Questions may be edited for space. ■

START-UP

## Something Fishy

I want to open my own seafood shop. How can I contact fish suppliers and get start-up advice?
*T.N.S., Toledo, Ohio*

The New England Fisheries Development Association, a Boston-based trade association, offers a one-day seminar designed for the beginning seafood retailer. The course, "Seafood Basics," covers the essentials of starting and running a retail seafood business, including how to make purchases, arrange for storage, and avoid fraudulent suppliers. It also provides information on the fishing industry's latest technologies.

The next seminar is scheduled for March 1994 in Boston. The cost is $295. For more information, contact the New England Fisheries Development Association at 309 World Trade Center, Boston, Mass. 02210; (617) 439-5480.

The Rhode Island Seafood Council, a trade group representing retailers, suppliers, and distributors of seafood, offers various publications on the industry, including a free monthly magazine called *American Seafood Institute Report*. The magazine covers industry news and contains lists of distributors and suppliers.

*Fresh Seafood—The Commercial Buyer's Guide* (ASI Books), by Ian Dore, gives tips on buying, selling, and serving fresh fish and shellfish. The book costs $69.95 plus $7 shipping and handling and is available through the Rhode Island Seafood Council. To order a copy or to obtain more information on other publications offered by the council, write or call the organization at 212 Main St., Suite 3, Wakefield, R.I. 02879; (401) 783-4200.



START-UP

## Magic In The Air

I want to open a store that sells magicians' supplies. Any advice on where to go for information?
*M.Z., Shreveport, La.*

Richard Blowers, national administrator of the Society of American Magicians, based in St. Louis, invites you to call him with your questions.

"Retailers who have no experience with magic and just want to sell magicians supplies may have a hard time," he says. "You must know your wares and be able to demonstrate them."

The society, a nonprofit trade group made up of magicians, suppliers, and retailers, holds an annual convention and provides its members with information on magic.



According to Blowers, magicians typically pass on expertise in their craft to interested novices, and the magicians' society provides contacts.

You can call Blowers at (314) 846-5659. For more information on the Society of American Magicians, write to P.O. Box 510260, St. Louis, Mo. 63151. ■

REPRESENTATIVES

## Expansion Plans

I am a manufacturers' representative covering the retail trade, and I am interested in expanding my lines. How can I find manufacturers looking for representatives?
*H.M., Tulsa, Okla.*

*Agency Sales*, the monthly magazine of the Manufacturers' Agents National Association, contains a classified section that lists manufacturers who are looking for representatives as well as agents who need manufacturers.

To receive a free copy along with membership information, write or call the association at P.O. Box 3467, Laguna Hills, Calif. 92654; (714) 859-4040. ■

ACCOUNTING

## Do-It-Yourself Numbers

I am a sole proprietor, and I can't afford an accountant for my firm. Can you recommend a book that would help me do my own record keeping?
*K.R., Frankfort, Maine*

A book that might be useful is *Keeping the Books* (Upstart), by Linda Pinson and Jerry Jinnett. The 200-page paperback covers the basics of setting up a record-keeping system that is retrievable and verifiable.

Included in the text are chapters on organizing general records, budgets, balance sheets, and profit-and-loss statements. There's also a section on analyzing financial statements.

Record keeping means filling in forms, and this book devotes a section to record-keeping schedules, including blank forms to use. Taxes are also covered for sole proprietorships, S corporations, and C corporations, along with a calendar of federal tax requirements. Income and estimated taxes are discussed, and a list of sources on tax help is included.

The book costs $19.95 and is available at most bookstores or by contacting the publisher at the Small Business Publishing Co., 12 Portland St., Dover, N.H. 03820; 1-800-235-8866. NB


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NB1193

# For Your Tax File

*How to keep taxes from trapping you.*

*By Albert B. Ellentuck*

DEDUCTIONS

## Tax Changes Affect Relocation Expenses

In the economic climate of recent years, many companies, forced to consolidate operations or start new businesses in other locations, relocated employees. Similarly, untold numbers of individuals have had to pick up stakes and move to find jobs.

In such instances, companies and individuals have incurred significant moving expenses; they have generally been tax-deductible. But the Omnibus Budget Reconciliation Act of 1993, passed in August, has made the deductibility of these business-related moving expenses more difficult to claim for both individuals and business owners.

Formerly, deductions were permitted for certain expenses of job-related moves if the new job was at least 35 miles farther from the old home than was the old job. The new law increases the 35-mile test to 50 miles.



PHOTO: GROB NELSON—BLACK STAR

**On the move** *for a job in a new location? Some of the relocation costs will not be deductible next year.*

In addition, the new law has eliminated taxpayers' deductions for other job-related moving costs, such as certain expenses involved in purchasing, selling, or leasing the old and the new residences; traveling expenses, including meals and lodging while on house-hunting trips before the move; and the cost of meals while in transit to the new location or while occupying temporary quarters there.

Under the new law, the deduction is limited to two expenses: moving household goods and personal effects from the old residence to the new residence, and traveling from the old residence to the new residence. This includes the cost of lodging while en route but not the cost of meals.

The changes are effective Jan. 1, 1994. Business owners and employers planning a business- or job-related move should consider accelerating the move if any of the deductions they could take under the old rules would be eliminated under the new rules.

Even if the actual move does not take place until 1994, however, it may still be possible to deduct expenses associated with house-hunting trips incurred before the end of 1993. ■

OWNERSHIP TRANSFERS

## Allocating The Costs Of A Business Purchase

Buying a business can be tricky, and how the price is allocated to the assets involved in the purchase can be critical to both buyer and seller. For example, part of the purchase price of a factory can be allocated to equipment, part can be ascribed to buildings, and part to land, and it is in the buyer's interest to maintain priorities in that order in assigning costs.

As much as possible of the purchase price should be allocated to equipment because it has a shorter useful life for tax purposes and can usually be depreciated faster than the buildings. The second priority should be the buildings because they can be depreciated and land cannot.

These allocations should be spelled out at purchase. That way, the buyer and the seller are bound by the agreement, and the Internal Revenue Service is more likely to accept the allocations.

The seller, however, may have different ideas about allocating the purchase price. The seller would generally like to have as much as possible of the purchase price allocated to the land because there can be no recapture of depreciation on the sale of the land. Recapture of depreciation on the buildings or the equipment is taxed as ordinary income, not as capital gains.

Under the 1993 tax act, some of the ground rules on amortizing purchased intangible assets have been changed, and this may affect the way the purchase price is allocated. Previously, a purchaser of a business would try to allocate as little as possible to goodwill because, like land, goodwill could not be amortized.

Now goodwill and a broad range of other intangible assets can be amortized over 15 years, and the buyer and seller can be more flexible in allocating part of the purchase price to goodwill.

In addition to goodwill, some of the other intangible assets that are covered by the new law are the value of an assembled work force, books, records, customer lists, know-how, renewable government licenses and permits, franchises, trademarks, and trade names. These assets can be amortized even if purchased separately.

Some other assets are also amortizable but only if acquired in connection with the acquisition of a business. They include covenants not to compete, certain computer software, films, sound recordings, videotapes, books, copyrights, and patents.

Purchasers who had acquired assets after July 25, 1991, may benefit from an election to have the new rules apply to all property acquired after that date. Business owners and their tax advisers should review all acquisitions made after July 25, 1991, and before Aug. 10, 1993, when this new provision took effect, to determine whether to make this election. NB



*Tax lawyer Albert B. Ellentuck is a partner in the Washington law firm of Colton and Boykin. Readers should see tax and legal advisers on specific cases.*

# It's Your Money

*A monthly survey of strategies and suggestions to help you with your personal finances.*

*By Peter Weaver*

HOME ECONOMICS

## Tax Breaks For Doing "Spring Cleaning" Now

Before the year-end holidays, consider taking an inventory of "stuff" you may have accumulated. You could come up with a substantial inventory of "get-rid-of" items that you can donate to charities, resulting in a tax deduction.

Many organizations, such as Goodwill Industries, the Salvation Army, and Amvets, accept donations of clothing, books, appliances, lawn mowers, television sets, stereos, and VCRs.

"Make a neat inventory of everything you're giving away, and put the original cost in a separate column," says Paul Offenbacher, president of Offenbacher and Co., a Silver Spring, Md., accounting firm. If you can't remember the original cost, estimate it. "Then, determine the current fair market value and enter it in the next column over," he says.

What is the fair market value? "In general, you can put down 15 to 20 percent of the estimated original cost," Offenbacher says. If you think you might be underestimating values—and this happens a lot—"you can figure that clothing has a five-year life, while most other, more durable items have a 10-year life."

For example, if you're giving away a stereo or a television set that you bought for $600 five years ago, it could be worth $300 in good condition (one-half the 10-year product life). "If you're giving away clothing that's 5 years old, you still might be able to get a 10 to 15 percent deduction, depending on the condition," Offenbacher says. Have the person receiving the donation sign and date your inventory. "If they won't sign the actual list with the estimated current values, then have them sign a receipt that says you donated those specific items, and date it," he says.




PHOTO: ©JON RIIS—THE STOCK MARKET

**That old car** *gathering dust—and leaves? Consider donating it to a charity.*

Among the charities that accept old cars are Goodwill Industries, the National Kidney Foundation, and the Salvation Army. So do some high schools, which use them for automotive classes.

The Kidney Foundation, which has 52 affiliated offices, can have your car picked up. For information, call 1-800-622-9010.

"We have 35 offices around the country that accept cars," says Bill Rable, a Goodwill Industries spokesman. Donors have to drive the vehicle to one of Goodwill's designated lots.

A local Salvation Army office can tell you where cars can be donated to the organization.

The National Automobile Dealers Association's *Official Used Car Guide*, available at public libraries, can help you estimate the value of your car.

Internal Revenue Service Publication 61 provides more details on donating cars and other items. ■

SECURITIES

## Investors Should Beware Of The Bond Trap

With interest rates at or near all-time lows, investors who feel the squeeze are moving from low-interest certificates of deposit to higher-yield bond funds, just about doubling the income.

"Many of these people don't understand that bonds decline in value when interest rates go up," says Victoria Felton-Collins, a partner in the investment advisory firm of Keller, Coad and Collins.



*Peter Weaver is a Washington-based columnist on personal finance.*

Long-term bond funds (30-year U.S. Treasuries) now pay about 6 percent interest. CDs now pay about 3 percent. The long bonds sound like a good deal, but if the market rate went up 1 percentage point, an investor could lose 12.5 percent of invested capital, which would be akin to a drop of 450 points in the Dow Jones Industrial Average.

"While I don't think interest rates are going up soon," says Ralph Presutti, a financial adviser with the Advest brokerage firm, "you can't just buy these long-term bond funds and forget about them."

These are marketable securities. If you begin to see interest rates edging back up again, you can call your investment company or broker and sell your shares in order to preserve your capital.

Keeping a lot of money in CDs can also be dangerous. "Inflation and taxes will eat you up," says Felton-Collins, who advises investors to move into short-term bond funds (two to three years) that pay close to 4 percent and present no more than a modest risk.

For CD investors who are a tad more daring, Presutti recommends intermediate bond funds (five to seven years) that pay close to 5 percent.

The Blanchard Short-Term Bond Fund offers a free Interest Rate Risk/Reward Calculator that shows how a rise in interest rates affects bonds. For information, call 1-800-458-8621, Ext. 6122. ■

HOME-BASED BUSINESS

## Home Can Be Where The Tax Shelter Is

Let's say you're in a tax bracket that will be hit hard by provisions in the new tax law. You're looking for a tax shelter. "Your own home, as a base for a small business, is one of the last shelters left," says Sarah Edwards, co-publisher with her husband, Paul, of *Self Employment Trends Newsletter.* The Edwardses are also co-authors of *Making It On Your Own* (Tarcher Publications).

"Prices for key office equipment have come way down," says Sarah Edwards, "so you can afford a really good office with computer, fax, laser printer, software, modem, and voice mail."

And, for the most part, all of these home-office goodies can be tax-deductible. "Even though you work somewhere else, you can still get deductions," says Norm Ray, a certified public accountant and author of *Easy Finances For Your Home-Based Business* (Rayve Productions).

Obviously, you don't crank up a business in your home just to get some tax deductions. "It's another incentive to make your home work for you," says Barbara Brabec, author of *Homemade Money—Your Home-Based Business Success Guide* (Betterway Books).

You have to know what you're doing, of course. "The Internal Revenue Service is watching home-based businesses very carefully," Ray says. But this shouldn't discourage you. Get advice from a tax adviser on which deductions are safe and which ones aren't. And keep good records.

More than 3 million home businesses were started between spring 1992 and spring 1993, pushing the overall national count to 39 million.

Why the boom? It's not just for tax advantages. "People are hedging," Sarah Edwards says. "They want to have something going besides their main job." With so much corporate downsizing going on, being your own boss has a lot more allure than it used to. ■



PHOTO: SCHUCK SAWISE—THE STOCK MARKET

**A home-based business** *can confer some tax deductions, but be careful: The IRS is watching.*

INVESTING

## Mortgage Securities: Pluses, Minuses

You may have heard of the CMO as an income investment that pays a good deal more than a money market fund or a CD.

Literally translated, a CMO is a collateralized mortgage obligation. Liberally translated, it's a form of security made up of packaged individual mortgages explicitly or implicitly backed by the U.S. government.

CMOs are AAA-rated, but there are other risks. "With all the refinancing going on now, your CMO may mature earlier than expected," says Albert J. Golly Jr., who heads his own investment-management firm in New York. The next CMO you buy as a replacement will pay a lower rate.

Like bonds, CMOs are sensitive to interest rates. When rates rise, the market price of CMOs drops.

You can invest in CMOs either through a broker or through a mutual fund with portfolios made up of securities backed by the U.S. Treasury or other government agencies.

"For the average investor, buying a government bond fund that includes CMOs is preferable to buying the pure quill from a broker," Golly says. By having your own CMO, you lack diversification, and you may have trouble selling it in the secondary market. With a mutual fund that contains some CMOs, you can buy and sell your shares over the phone.

"Look for a government securities fund that has some CMOs with intermediate three- to five-year maturities," Golly advises. Shorter maturities may be dangerous, he says. Short-term interest rates will be the first to rise, making the price of the securities fall.

Note that Support (Companion), Floater, and Z-Bond CMOs may pay a higher rate but are much riskier than those dubbed PAC/TAC. ■

PHILANTHROPY

## Some Holiday Cheer For Charities—And Taxpayers

It's the time of year when the nation's charities launch fund-raising appeals. This holiday season, charities—and generous taxpayers—are getting a gift from Congress.

The new tax law eliminates the alternative minimum tax preference item for appreciated property (stocks, bonds, real estate) donated after Dec. 31, 1992. This makes it a lot easier to donate property and get a tax deduction based on the current market value of your gift.

"This is a very positive move for charitable giving," says Steve Bone, an attorney with Renaissance Inc., a charitable-gift consulting firm. "Charitable gifts this season can help reduce the impact of the new tax increases," which are retroactive to last Jan. 1.

Charities are expected to be offering more opportunities for donors to get tax breaks, and they're promoting income-producing retirement investments through charitable remainder trusts (CRTs). With a CRT, you give appreciated securities or other eligible property, and you get a tax deduction and a share of an investment trust (similar to a mutual fund) that helps provide retirement income.

Check this out with your favorite charity and your tax adviser. ■

CREDIT CARDS

## Registration Services Can Save Time If Not Money

You probably have received various pitches in the mail to sign up for a credit card registration service, which may cost from $6 to $25 a year.

"A lot of credit card holders buy these services because they think they will lose a lot of money if their cards are lost or stolen," says Geri Detweiler, a spokeswoman for the Bankcard Holders of America consumer group and author of *The Ultimate Credit Handbook* (Advice Press).

The risk is limited, however. "Federal law limits your liability to a maximum of $50 per card, and most banks won't charge anything at all if you report your loss promptly," Detweiler says.

But Detweiler says that it might be a good idea to sign up for a registration service if you have a lot of cards.

"If you have just a couple of credit cards," Detweiler says, "you might be better off just making a photocopy of them with their 800 numbers penned in."

Some affinity cards offer free credit card registration. "Grab it," Detweiler says. "It forces you to get organized with all your cards and numbers listed in one place."

For more information, call Bankcard Holders of America at 1-800-553-8025. ■

# Classified Ads

Classified Rates And Information

To place a classified ad CALL TOLL FREE, 800-424-6746 (in Washington, DC call 463-5640) or write Nation's Business Classified, PO Box 1200, Washington, DC 20013. Closing date for advertising is five weeks preceding date of issue. Rates are based on frequency at a per line per insert cost as follows:

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3. 25-50
4. More than 50

**2**

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2. No

**3**

**If you answered no to Question 2, skip to Question 4. If you answered yes, do you think other employers of a similar size should be required to provide health insurance for their workers?**

1. Yes
2. No
3. Unsure

**4**

**If a group-purchasing cooperative could save you 15 percent on health-insurance costs, would you join?**

1. Yes
2. No
3. Unsure

**5**

**What percentage of an employee's health-insurance premium should be paid by his or her employer?**

1. 100 percent
2. 80 percent
3. 60 percent
4. 50 percent
5. Less than 50 percent

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POLL RESULTS

# Readers' Views On Labor Panel

Those who responded to a labor-relations poll in *Nation's Business* said a presidential commission to study labor-management relations is unnecessary, and they also don't want such a commission examining ways to make it easier for unions to organize workers. Those are the views of the overwhelming majority of readers who responded to the Where I Stand poll in the September issue.

Nearly all of the respondents to questions concerning the recently formed Commission on the Future of Labor-Management Relations said that union representation of workers is not necessary to ensure effective employee participation in the workplace. If unions want to organize workers, the majority of respondents said, they should do so through secret-ballot elections, not merely by obtaining employee signatures on union-authorization cards.

Here are the complete results of the poll:

## LABOR RELATIONS

| | | |
|---|---|---|
| **■ President Clinton's Commission on the Future of Labor-Management Relations will examine ways to improve employer-worker cooperation and reduce workplace conflict and delay. Is such a commission necessary?** | 1. Yes<br>2. No<br>3. Undecided | 16%<br>77%<br>7% |
| **■ Should this commission focus primarily on unionized workplaces in exploring employee participation in management decisions and other forms of labor-management cooperation?** | 1. Yes<br>2. No<br>3. Undecided | 19%<br>70%<br>11% |
| **■ Does effective employee participation require that a union represent those employees?** | 1. Yes<br>2. No<br>3. Undecided | 3%<br>95%<br>2% |
| **■ Federal administrative agencies and the courts are now the principal vehicles for resolving labor disputes. Should less cumbersome, alternative procedures be found?** | 1. Yes<br>2. No<br>3. Undecided | 86%<br>8%<br>6% |
| **■ Should the new worker-management commission examine ways to make it easier for unions to organize workers?** | 1. Yes<br>2. No<br>3. Undecided | 5%<br>91%<br>4% |
| **■ Should a majority of workers' signatures on union-authorization cards be sufficient for union recognition, or should the more rigid test of a secret ballot be maintained?** | 1. Authorization cards<br>2. Secret ballot<br>3. Undecided | 8%<br>83%<br>9% |

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President Clinton's health-reform plan calls for subsidies to help small firms buy health insurance. (Page 18)

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After relatives, friends, and banks, "business angels" could be the saviors of a start-up. (Page 29)

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Savvy small companies use their flexibility to tailor goods and services for market segments. (Page 39)

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As their sales to big companies decline, insurers are paying more attention to the butcher, the baker, and the candlestick maker. (Page 49)

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# Editorial

## Doing Nothing Is No Longer An Option

What if Congress decides that health-care reform is too complex, too controversial, too risky politically—and defers action?

The answer is in the accompanying chart. Health-care costs will continue to soar, intensifying all of the problems the nation now faces. Many businesses will be hard-pressed to continue coverage of their workers. The ranks of the uninsured will swell. The problem of cost shifting, in which medical providers charge the insured more to cover costs of the uninsured, will become even greater.

A do-nothing response to the present health-care crisis is clearly not an option, and President Clinton deserves recognition for moving the health-care issue to the top of the national policy agenda. That does not mean, however, that his proposals deserve unquestioning approval. While some of its components would deal effectively with major problems of the present system, others could only make them worse.

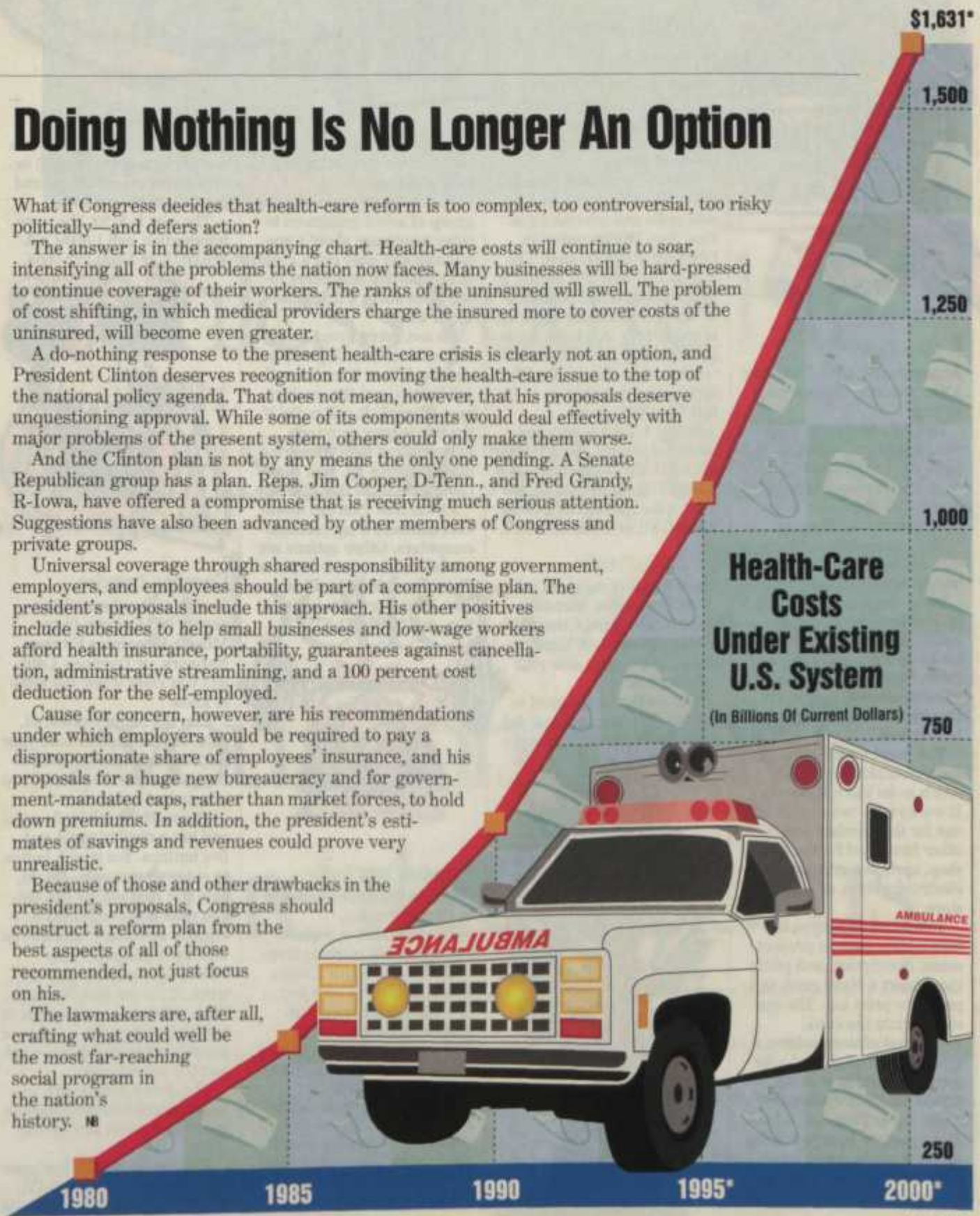
And the Clinton plan is not by any means the only one pending. A Senate Republican group has a plan. Reps. Jim Cooper, D-Tenn., and Fred Grandy, R-Iowa, have offered a compromise that is receiving much serious attention. Suggestions have also been advanced by other members of Congress and private groups.

Universal coverage through shared responsibility among government, employers, and employees should be part of a compromise plan. The president's proposals include this approach. His other positives include subsidies to help small businesses and low-wage workers afford health insurance, portability, guarantees against cancellation, administrative streamlining, and a 100 percent cost deduction for the self-employed.

Cause for concern, however, are his recommendations under which employers would be required to pay a disproportionate share of employees' insurance, and his proposals for a huge new bureaucracy and for government-mandated caps, rather than market forces, to hold down premiums. In addition, the president's estimates of savings and revenues could prove very unrealistic.

Because of those and other drawbacks in the president's proposals, Congress should construct a reform plan from the best aspects of all of those recommended, not just focus on his.

The lawmakers are, after all, crafting what could well be the most far-reaching social program in the nation's history. NB



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*By Janet L. Willen*

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**Insignia Systems**, of Minnetonka, Minn., says its Impulse Sign System lets you create professional-looking, in-store displays that keep your customers informed.

The system includes signs, a sign-making machine, and cartridges with designed formats.

Signs range in size from 2½ by 3⅔ inches to 11 by 14 inches. Blank signs are available as well as ones with preprinted borders, logos, and announcements, such as "2-Day Special" or "Everyday Low Prices."

The heart of the system is the sign-making machine, which looks like a typewriter. It works with two cartridges: one for the typeface and the other formatted for the type of shop, such as a grocery, an electronics shop, or a liquor store.

To make a sign, type in information such as product name, description, and price; then insert a blank card, and press the print key. The machine prints the card.

The cost of the machine, a typeface cartridge, and a formatted cartridge is about $2,500. Insignia Systems sends *Signs That Sell*, a book about in-store merchandising signs, at no charge to interested retailers. For more information, call 1-800-874-4648.

## Do Not Disturb

Some days are filled with interruptions. A gadget from **Sign Works**, of Quincy, Fla., may at least let you talk on the phone in peace.

Borrowing an idea from the ON THE AIR signs used outside radio and television studios, Sign Works makes an ON THE PHONE sign. The sign is 7 by 5 by 2¼ inches; it plugs into a conventional outlet and automatically lights up in red letters on a black background when you remove the receiver from the cradle. The sign can be mounted up to 10 feet from the phone.

Model I, for use with conventional phones, costs $19.95; Model II, for headsets, costs $29.95. Shipping costs $4. For more information, call 1-800-I AM BUSY, or 1-800-426-2879.

## No Calls, Please

If you'd rather make no calls at all, PhoneTree, manufactured by **Personal Communication Systems**, of Winston-Salem, N.C., can make your calls for you.

The system is designed to deliver the same prerecorded message to a group of people.



You can program about 1,000 calls and divide that list into 10 calling categories.

For example, you can call a group of select customers to relay a message about a special sale and later call a group of prospective customers to tell them about a first-time-buyer event.

To use, record your message and choose the group you wish to deliver it to. Press the call button, and the machine goes to work. It will redial if the line is busy or no one answers, and if an answering machine picks up, your machine will talk to that machine.

PhoneTree Plus can download numbers from personal computers. Other options are available. The cost is $499 for PhoneTree, $649 for PhoneTree Plus. For more information, call 1-800-951-8733.



## Pumping Iron And . . .

Business trips are no excuse to stop exercising.

The MiniMax, a portable home exercise machine from **CSA, Inc.**, of South Easton, Mass., can travel with you. The equipment weighs 26 pounds and measures 13 inches high and 40 inches long. It folds to fit into an airline's overhead compartment.

MiniMax opens as an adjustable chair. You sit or recline on it and use removable ankle or cuff handles of variable resistance to work different parts of the body.

The manufacturer says you can perform more than 40 exercises with the machine and get an aerobic workout.

The cost is $199. For more information, call 1-800-CSA-WKOUT, or 1-800-272-9568.




## Counting Calories

Is all your hard exercising paying off? Caltrac, from **Muscle Dynamics Fitness Network**, of Torrance, Calif., lets you know when you want to know.

Clip the battery-powered, palm-sized computer onto your clothing, and throughout the day it monitors the calories you take in and burn.

The machine is 3 by 3 inches and has a display panel and five buttons. You push a button to enter your weight, height, age, and sex, and, as you eat, you push another button to register how many calories you take in. A computer chip senses your activity to keep track of the calories you burn. Push different combinations of buttons to show the number of calories taken in, calories used, and the net calories.

The device comes with an instructional booklet, a fitness guide, and a diet and calorie guide.

The cost is $89.95. For more information, call 1-800-5-CAL-TRAC, or 1-800-522-5872. NB




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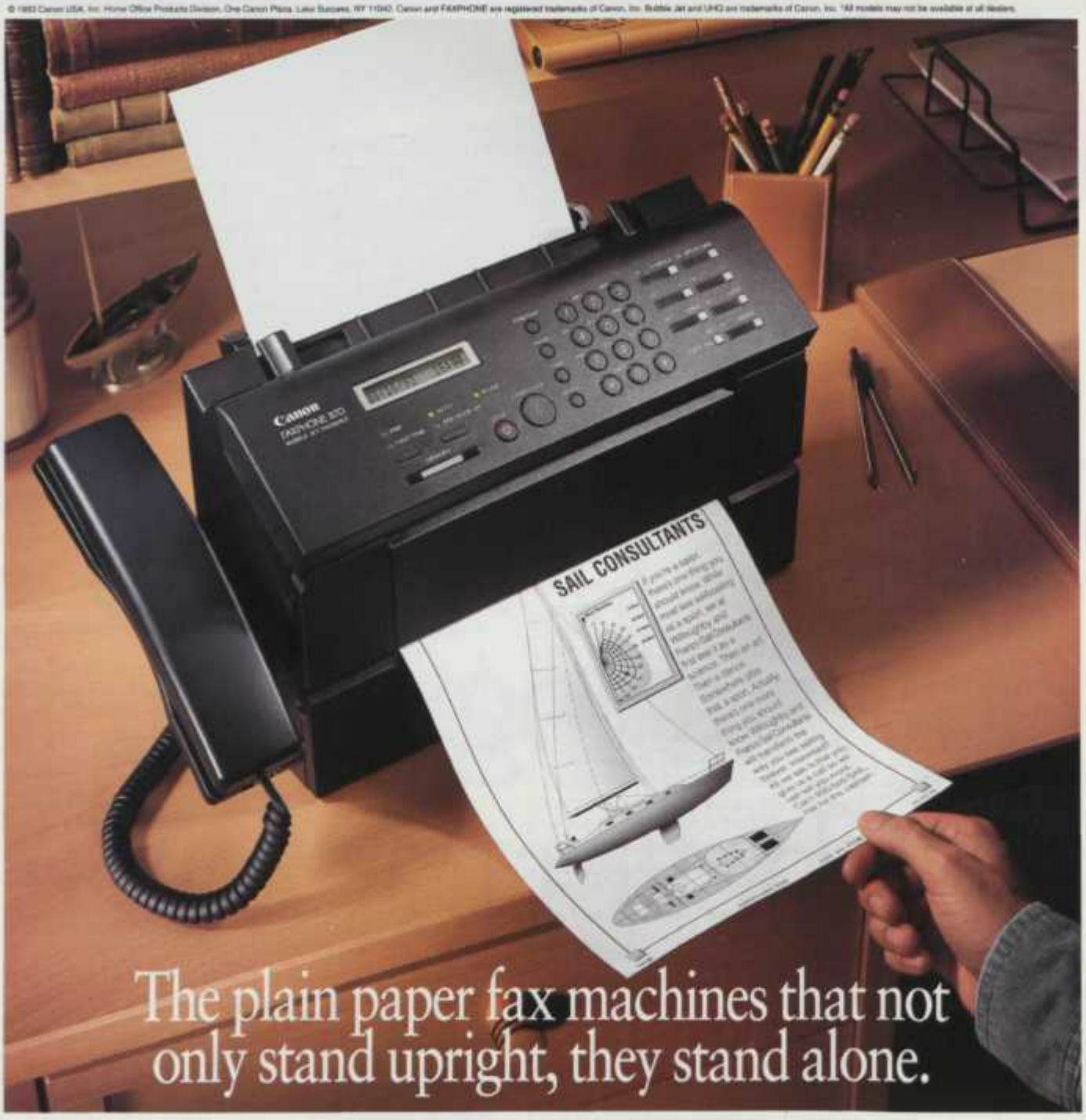
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